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Determinants of the Voluntary Disclosure of Employee Information in Annual Reports: an Application of Stakeholder Theory

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Determinants of the Voluntary Disclosure of Employee Information in Annual Reports: An Application of Stakeholder Theory

Presented By

Tamara Zunker

A thesis submitted in total fulfilment of the requirements of the degree of

Doctor of Philosophy

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Statement of Originality

This thesis is submitted to Bond University in fulfillment of the requirements of the degree of Doctor of Philosophy. This thesis represents my own original work towards this research degree and contains no material which has been previously submitted for a degree or diploma at this University or any other institution, except where due acknowledgement is made.

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Tamara Zunker

Faculty of Business,
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March 2011

DEDICATION

With much love to my extraordinary family who have shaped my life

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This journey has only been possible because of the continued encouragement, guidance and support of my family, friends, and colleagues. I am very grateful to Bond University and the Faculty of Business for its generous support and assistance. I would especially like to express my sincerest gratitude to my supervisor, Professor Pamela Kent, and associate supervisor, Professor Carolyn Windsor. Your encouragement helped me to keep focused throughout the process, providing guidance and motivation that often meant progress rather than stagnation. Thank you for challenging me to think and work outside my comfort zone, for helping me to appreciate the field of research, and for progressing my development of skills as an academic. The insightful comments, inspiration and superior knowledge undoubtedly resulted in significant contributions to the development of this thesis. Many thanks for your ongoing leadership and friendship.

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Tamara Zunker

ABSTRACT

This paper seeks to examine why Australian publicly listed companies voluntarily disclose employee-related information in their annual report. The purpose of this study is to research the quantity and quality of the voluntary employee-related disclosures present in 2004 Australian company annual reports. Ullmann's (1985) stakeholder framework is applied comprising three dimensions, stakeholder power, strategic posture, and economic performance. The second objective is to investigate the type and nature of employee-related disclosures made by Australian companies within their annual reports. The final objective is to determine whether publicly listed companies choose to disclose employee-related information to legitimise their place in society as a result of former adverse publicity.

A number of key explanations are proposed for the provision of voluntary employee-related disclosures in Australian corporate annual reports. Companies are placing more importance on the human capital in the company over time (Stewart, 1997) and numerous researchers argue that the demand from stakeholders for additional disclosure on intellectual capital, including information about the company's employees, is increasing. Employees are an important intangible asset for many companies, therefore another explanation is that there could be benefits for the company in acting responsibly to the employees. Another benefit is attempting to be an accountable or responsible company by reporting employee-related practices publicly. An alternative reason is that companies voluntarily disclose employee-related information in response to adverse publicity from the media to legitimise their relationship with society.

Companies with a 30 June 2004 balance date are extracted from all of the companies listed on the Australian Stock Exchange (ASX), to create a sample of 970 companies. This consists of 649 companies that disclose information about their employees in their annual report, and 321 companies that do not disclose any employee-related information. Data was collected to measure

components of employee-related disclosure, proxies for Ullmann's three-dimensional stakeholder framework, individual corporate governance variables and threats to legitimacy.

The results indicate that companies that have greater employee power disclose more employee-related information and disclose higher quality employee-related information than companies with less employee power. Specifically this study examines the companies' propensity to provide employee-related information and the quality of voluntary employee-related disclosures in relation to employee stakeholder power represented by employee share ownership and trade union membership. Evidence shows that employee share ownership does empower employee stakeholders regarding the quantity and quality of corporate employee-related disclosures. In contrast, highly unionised companies disclose less voluntary employee-related information in their annual report.

The results also find that companies displaying a more active strategic posture towards employee-related issues disclose more high quality employee-related information than companies displaying a less active posture to these issues. Companies employ strong corporate governance best practice systems to strategically manage employees through disclosing quality voluntary employee-related information. Corporate mission statements that recognise employees are also evidence of strategic posture, but only for quality of employee-related disclosures.

Companies with higher past or present economic performance disclose a greater amount of high quality employee-related information than companies with lower past or current performance. Economic performance represented by return on assets and Tobin's Q shows mixed results with return on assets marginally associated with the quality of employee reporting, while Tobin's Q is related to the amount of employee-related information a company discloses. Larger companies and companies with higher levels of adverse publicity are significantly associated with higher levels of voluntary annual report employee-related disclosures.

ABBREVIATIONS

Abbreviation	Meaning
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
AEOA	Australian Employee Ownership Association
ASX	Australian Securities Exchange
CCPA	Centre for Corporate Public Affairs
CEP	Council of Economic Priorities
CSR	Corporate Social Responsibility
FASB	Financial Accounting Standards Board
GICS	Global Industry Classification Standard
GRI	Global Reporting Index
IFAC	International Federation of Accountants
IOSCO	International Organization of Securities Commission
LFS	Labour Force Survey
NYSE	New York Stock Exchange
OECD	Organisation of Economic Co-operation and Development

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CHAPTER 1

INTRODUCTION AND PROBLEM IDENTIFICATION

1.1 BACKGROUND

A significant body of literature over the past four decades has researched corporate social responsibility disclosures (for example, Bebbington, Larrinaga and Moneva, 2008; Brown and Deegan, 1998; Deegan, 2002; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Deegan, Rankin and Voght, 2000; Gray, Javad, Power and Sinclair, 2001; Gray, Koury and Lavers, 1995a, 1995b; Guthrie and Parker, 1989, 1990; Kolk and Pinkse, 2010; Trotman, 1979; Ullmann, 1985). Social responsibility disclosures consist of information pertaining to the relationship between a company and its surrounding physical and social environments (Deegan and Gordon, 1996; Guthrie and Parker, 1990). These disclosures relate to energy production, environmental concerns, ethical practices, human resources and community contribution (Deegan, Kent and Lyons, 1995; Deegan and Gordon, 1996; Gray et al., 1995a; Hackston and Milne, 1996; Milne and Adler, 1999; Wilmshurst and Frost, 2000).

Former studies have provided general explanations for social responsibility disclosures (for example, Bebbington et al., 2008; Bowman and Haire, 1976; Campbell, 2007; Dierkes and Antal, 1985; Roberts, 1992), and environmental disclosures (Brown and Deegan, 1998; Cowen and Gadenne, 2005; Deegan, 2002; Deegan and Gordon, 1996; Hackston and Milne, 1996; Ingram and Frazier, 1980; Jantadej and Kent, 1999; Milne and Patten, 2002; Neu, Warsame and Pedwell, 1998; O'Donovan, 2002; Rockness, 1985; Wilmshurst and Frost, 2000). Numerous studies assess the demand and value of social performance reports (Chen, Patten and Roberts, 2008; Dierkes and Preston, 1977; Estes, 1976), some examine the relationships between social and financial performance (Abbott and Monsen, 1979; Anderson and Frankle, 1980; Cochran and

Wood, 1984; Murray, Sinclair, Power and Gray, 2006; Preston, 1978; Shane and Spicer, 1983; Spicer, 1978a), while others analyse corporate social responsibility within specific countries (De Villiers and Van Staden, 2006; Egenhofer, 2007; Freedman and Jaggi, 2004; Islam and Deegan, 2008; Leuz and Verrecchia, 2000; Li and McConomy, 1999; Makela and Nasi, 2010; Neu et al., 1998; Okereke, 2007). Cowen, Ferreri and Parker (1987) find that different types of disclosure are explained by substantially different independent variables.

This study extends the body of research on corporate social disclosures (Deegan, 2000 and 2002; Guthrie and Parker, 1989; O'Dwyer, 2002; Roberts, 1992) by focusing on voluntary employee-related[1] disclosures. Voluntary employee-related, or 'human resource' disclosures, include information on occupational health and safety issues, career, community, employee relations, training and development, employee share plans, housing, employee welfare and work place agreements (Deegan, Rankin and Tobin, 2002; Gray et al., 1995b; Hossain, Khan and Yasmin, 2004; Kent and Zunker, 2010; Rimmel, 2003).

Some companies have attempted to capture the value of their organisational intangible resources to cope with the changing business conditions revealed by globalisation, the improvement of competition and increasing customer demands (Klein, 1997; Rimmel, 2003). Employees are considered to be an intangible resource, along with intellectual property rights, manufacturing procedures or organisational structure that become visible to investors within corporate reports. Practitioners and researchers assert that corporate knowledge represents an asset in its own right and not simply as an enhancement of other assets (Brooking, 1996; Edvinsson and Malone, 1997; Klein, 1997; Rimmel, 2003; Roos, Roos, Dragonetti and Edvinsson, 1998; Stewart, 1997; Sveiby, 1997).

[1] An employee is a person employed in a calling on wages or piecework rates; or a person whose usual occupation is that of an employee in a calling; or a person employed in a calling, even though the person is working under a contract for labour only, or substantially for labour only; or the person is a lessee of tools or other implements of production, or of a vehicle used to deliver goods; or the person owns, wholly or partly, a vehicle used to transport goods or passengers; or a person who is a member of a class of persons declared to be employees under section 275; or each person, being 1 of 4 or more persons who are, or claim to be, partners working in association in a calling or business; or for proceedings for payment or recovery of amounts—a former employee; or an outworker; or an apprentice or trainee (Industrial Relations Act, 1999).

Many academics (Flamholtz, 1999; Gröjer and Johanson, 1996; Guthrie, Petty and Johanson, 2001; Mouritsen, 1998; Petty and Guthrie, 2000) communicate that companies state that their employees are the company's most valuable resource, although few companies demonstrate the importance of human resources such as making disclosures about them in their corporate annual reports.

The stakeholder conceptual framework developed by Freeman (1984) and Ullmann[2] (1985) is applied in this study, to explain the quality and quantity of voluntary employee-related disclosures made by Australian companies in their annual reports. Freeman (1984) and Ullmann (1985) provide a comprehensive theoretical framework that adds to the development of the research, and presents the opportunity to predict levels of corporate social disclosure (Roberts, 1992) for a cross-section of companies.

Ullmann's theoretical framework is applied to this study of voluntary employee-related disclosures for two reasons. First, the theory allows researchers to identify key stakeholders associated with particular categories of social disclosure rather than focusing on a general range of stakeholders. Second, this theory incorporates an ex ante strategy for companies to manage particular stakeholders rather than ex post management after the company has impaired their social contract with society. Ullmann (1985) introduced a three-dimensional framework of corporate social responsibility disclosure that incorporated the elements of stakeholder power, strategic posture and the past and present economic performance of the company. Ullmann (1985) argued that the fundamental principle of stakeholder theory is that companies use social disclosures as a means to manage their relationships with their stakeholders and the external environment.

[2] See Appendix 1 for comparative studies applying Ullmann's framework.

1.2 RESEARCH QUESTION

Social responsibility reporting is a concept whereby companies consider the interests of society by taking responsibility for reporting the impact of their operations on customers, suppliers, employees, shareholders, communities and other stakeholders, and the environment. This obligation is perceived to extend beyond the statutory requirements to comply with legislation, and companies voluntarily agree to report about employee-related information as well as the local community and society in general (Deegan et al., 2002).

The research question to be addressed in the current study is: Why do Australian publicly listed companies voluntarily disclose employee-related information in their annual reports?

Accounting and corporate social responsibility issues, such as employee-related disclosures, are influenced by a series of intricate supply and demand forces (Foster, 1986). Benefits of disclosing corporate social information are expected to be in excess of costs, and this study aims to explain companies' motivations to voluntarily disclose employee information in their annual reports (Kent and Ung, 2003).

1.2.1 DEMAND FORCES (COSTS)

Stakeholders such as employees, suppliers, customers, competitors, media, and regulatory authorities often require more information than is demanded by investors. The supply forces are affected by operational regulation, collection and processing costs, litigation costs, political costs, proprietary costs and constraints on managerial behaviour (Boesso and Kumar, 2009; Foster, 1986; Healy and Palepu, 2001; Verrecchia, 2001). The final two are particularly important in the decision-making process relating to voluntary employee-related disclosures.

Litigation costs arise when the information disclosed after an event is inaccurate, as users of information attempt to recover the losses arising from their reliance on the inaccurate information (Heitzman, Wasley and Zimmerman, 2010; Kent and Chan, 2009; Magness, 2006; Skinner, 1997). Political costs (Adams, Hill and Roberts, 1998; Clarke and Gibson-Sweet, 1999; Gray et al., 1995a, b; Milne, 2001; Ness and Mirza, 1991) are associated with social disclosures, such as employee unions taking advantage of the social information disclosed in annual reports to increase demands on the companies (Ben-Ner and Jones, 1995). Employee unions are seen as a source of pressure as they are considered to "have a stake in making public almost anything that a company may want to hide" (Bauer and Fenn, 1972, p.38, quoted in Tilt, 1994). Proprietary costs have been described as the "friction that prevents full disclosure" (Gigler, 1994, p.225). If competitors use the disclosed information to the company's detriment, there are possible costs that could be imposed on the company (Cormier and Gordon, 2001; Holder-Webb, Cohen, Nath and Wood, 2009; Li, Richardson and Thomton, 1997; Lo, 2010).

Given the existence of costs associated with the disclosure of corporate information and that the social reporting environment in Australia is largely unregulated, companies are expected to provide voluntary employee-related disclosures when the benefits exceed the direct and indirect costs of these disclosures (Depoers, 2000; Lo, 2010; Meek, Roberts and Gray, 1995).

1.2.2 SUPPLY FORCES (BENEFITS)

Numerous underlying principles exist for managers to voluntarily disclose employee-related information in their annual reports. One incentive is the desire to comply with legal and professional requirements (Jamali, 2008; Van Dongen, 2006). However, this is not a key motivation given the lack of requirements in Australia mandating social disclosures and related "verifications" (Deegan, 2000). "Economic rationality" concerns could be considered another important reason for a lack of disclosure. In particular, there could be benefits for the company in appearing to act responsibly to their employees and this could be deemed to be more important than acknowledging other social responsibilities of the company (Deegan, 2002; Friedman, 1962).

Another benefit of disclosure is the recognition of being an accountable or responsible company by reporting information voluntarily. Managers are likely to consider that stakeholders have a right to certain information, and that they should fulfil that entitlement (Deegan, 2002; Donaldson and Preston, 1995; Freeman and Reed, 1983; Hasnas, 1998; Wilmhurst and Frost, 2000) despite the related costs. Complying with borrowing requirements is another incentive to provide voluntary employee-related information. Corporate lending institutions frequently require, as an element of their risk assessment policies, borrowers to regularly supply certain information about their social policies and performance. Managers are also expected to conform to community expectations, to appear as though they are complying with the "social contract", and this is reliant upon providing evidence of positive social performance (Abeysekera, 2006; Aerts, Cormier and Magnan, 2006; Deegan, 2000, 2002).

Benefits such as managing particular stakeholder groups (Neu et al., 1998; Roberts, 1992; Ullmann, 1985) and the compliance of industry requirements or particular codes of conduct (Deegan and Blomquist, 2006) are additional motivations that encourage management to disclose social responsibility information. Many companies also apply to win social reporting awards, thus receiving the associated positive publicity those awards generate. Winning an award could in turn have positive implications for the reputation of the company (Bebbington et al., 2008; Deegan and Carroll, 1993).

The desire to legitimise a company's operations is a theory explaining voluntary social disclosures by many researchers (Deegan, 2002). Many factors are attributable to the reporting decision and it is unlikely that one of the above motivations is the overwhelming reason for reporting voluntary employee-related information.

The Australian Accounting Standards Board (AASB) considers from a "public interest perspective" whether the costs of supplying specific information exceed the benefits gained from its production. There is no generally accepted method for quantitatively measuring costs and benefits of information presented in annual reports. The costs of providing voluntary information are incurred, predominantly by reporting companies, but extend in various direct and indirect ways to the users of general-purpose financial reports. There is no assurance that the costs are borne ultimately by those who receive the benefits (AASB, 2008).

1.3 RESEARCH OBJECTIVES

The first objective of this thesis is to examine factors that determine the quantity and quality of voluntary employee-related disclosures in the annual reports of Australian publicly listed companies applying Ullmann's stakeholder theory. The second objective is to investigate the category type (for example, health and safety) and nature (for example, positive or negative) of the employee-related disclosures made by Australian companies within their annual reports. The final objective is to determine whether publicly listed companies choose to disclose employee-related information to legitimise their place in society as a result of former adverse publicity. Legitimacy theory is integrated into this study as management's attempt to manage any adverse relationships with stakeholders following adverse publicity.

1.4 MOTIVATION

This study explores the factors influencing Australian companies to make voluntary disclosures of employee-related information in their annual report. The decision to focus on employee-related disclosures rather than social responsibility disclosures in general or one of the other categories of disclosure was made for a number of reasons.

First, the Organisation for Economic Co-operation and Development (OECD) and the Global Reporting Initiative (GRI) stress the importance of disclosing employee-related information as a governance mechanism for companies. Employees and other stakeholders play an important role in contributing to the long-term success and performance of the company, while governments establish the overall institutional and legal framework for corporate governance. The role of each of these participants and their interactions vary widely among OECD countries and non-OECD countries. These relationships are subject to law and regulation, to voluntary adaptation and, most importantly, to market forces. These organisations consider it important to recognise these vital stakeholders in their annual reports (GRI, 2002; OECD, 2004).

Human resources are considered the most important element of a company's competitive advantage. The community, employees and shareholders expect companies to manage and utilise human resources not only for the competitive advantage of a company and the public. These stakeholders expect companies to disclose information relating to the management of human resources in their annual reports (Subbarao and Zeghal, 1997).

Limited research has been conducted identifying the nature, quantity and quality of employee-related disclosures for Australian listed companies. In Australia, limited legal and professional requirements exist mandating social disclosures in annual reports (Deegan, 2000; Waddock and Smith, 2000; Whitehouse, 2003). Employee-related disclosures by Australian companies are predominantly carried out on a voluntary basis, with the exception of mandatory information relating to employee benefits. Apart from this requirement the Corporations Law, various Accounting Standards and the Australian Securities Exchange (ASX) reporting requirements (Kent and Chan, 2009) do not command any other type of employee-related disclosures[3]. However, former studies indicate that Australian companies are continuing to provide voluntary employee-related information within their annual reports and the amount of disclosure is increasing over time (Brown and Deegan, 1998; Tilt, 2004; Trotman and Bradley, 1981).

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[3] There are several general reporting requirements that are relevant to the social environment. For example, "Australian companies are required to provide true and fair balance sheets and profit and loss accounts, and to disclose information about contingent liabilities and material after balance date events. Such requirements could relate to particular social issues associated with a company's operations. The only specific corporate reporting requirement of an employee nature is that Australian companies must recognise a liability when an employee has provided service in exchange for employee benefits to be paid in the future, or to recognise an expense when the entity consumes the economic benefits arising from services provided by an employee in exchange for employee benefits" (Kent & Zunker, 2010). This requirement is embodied in AASB 119 "Employee Benefits" which became effective in April 2007.

In 2006, a Federal Government enquiry into whether corporate social reporting (CSR) should be mandatory recommended that CSR remain voluntary and unregulated (The Commonwealth Government of Australia, 2006a). The enquiry further concluded that the current Corporations Act gave directors adequate guidance for providing non-financial information such as employee related reporting by listed companies (The Commonwealth Government of Australia, 2006b). Thus corporate governance plays an important role in the provision of employee disclosures by Australian companies.

Little attention has been given to the role of corporate governance systems, corporate mission statements, employee share ownership and union membership associated with voluntary employee related disclosures in annual reports despite the importance placed on employees by many companies. Several studies have examined eclectic aspects, policies and practices of employee disclosures in corporate social responsibility reports with researchers using various theoretical and methodological approaches (see Spence, Husillos and Correa-Ruiz, 2010, for an extensive critical literature review and Owen, 2008 for a critiqued overview of corporate social reporting).

Deegan and Gordon (1996), Deegan and Rankin (1996), Deegan et al. (2002), Hackson and Milne (1996), Islam and Deegan (2008) and Kuasirikun and Sherer (2004) find employee-related information to be more prevalent than any other category of social disclosure in annual reports. However, a comprehensive study has not been undertaken to identify the nature, quantity and quality in Australia for a range of different sized companies despite the importance placed on these disclosures by the OECD and GRI.

Finally, prior research in the social responsibility field has mostly been limited in distinguishing the various categories of social responsibility disclosures, other than environmental disclosures, and many have explained social responsibility disclosures generally (for example, Branco and Rodrigues, 2008; Cowen et al., 1987; Menassa, 2010; Roberts, 1992; Sutantoputra, 2009). The limited research on employee-related disclosures presented in recent times provides minimal information about the motives for companies to disclose employee information in their annual reports.

An analysis of 970 Australian publicly listed companies as at 30 June 2004, indicated that 67 per cent of companies are voluntarily disclosing employee-related information in their annual reports. This outcome provides the rationale to better understand why companies are deciding to provide this information voluntarily and determine whether there are other factors (such as specific corporate governance practices) that influence the amount of information provided, the nature of the information and the impact that information has on the company and its stakeholders.

1.5 CONTRIBUTIONS

Early studies into corporate social responsibility reporting have primarily taken a normative approach about how companies should behave and how their performance should be evaluated (Clarkson, 1995; Donaldson and Preston, 1995; Pesqueux and Damak-Ayadi, 2005). The literature has since been enhanced by empirical studies that have examined the relationship between corporate social responsibility disclosure and numerous characteristics of the disclosing companies, such as profitability, industry membership, country of origin and culture, or size (see Cowen et al., 1987; Fassin, 2009; Fayers, 1998; Ingram, 1978; Ingram and Frazier, 1980; Newson and Deegan, 2002; Spicer, 1978; Trotman and Bradley, 1981; Ullmann, 1985). Capital market studies that examine the usefulness of corporate social responsibility disclosures have also been an area of interest (for example, Abhayawansa and Abeysekera, 2008; Buzby and Falk, 1978; Dierkes and Antal, 1985).

The first contribution of the study is to extend corporate social responsibility accounting research by focusing on employee-related disclosures for all publicly listed companies in

Australia. This is an important contribution due to human resources (employees) are considered one of the most important elements of a company's competitive advantage and a crucial factor to the success, or failure, of a company's operations over time. The frequency, content and amount of disclosure found in annual reports are considered to be associated with the importance companies place on human resources (Vuontisjarvi, 2006).

Voluntary employee-related disclosures have been given little attention in relevant literature despite the importance placed on this stakeholder group by many companies. The field providing the most research regarding a company's human resources is the intellectual capital domain. Intellectual capital research examines structural capital and human capital. Human capital is an intangible asset embedded in the company's human resources, for example, employees and management (Rimmel, 2003). Numerous researchers (see Eccles, Herz, Keegan and Philips, 2001; Lev, 2001; Mouritsen, Larsen, Buhk and Johansen, 2001) argue that demand for additional disclosure on intellectual capital is increasing.

Cowen et al. (1987), Adams, Hill and Roberts (1995b), Deegan et al. (1995), Subbarao and Zeghal (1997), Christopher and Siu-Chung Kong (1998), Rimmel (2003) and Hossain et al. (2004)[4] are researchers who evaluate aspects of employee-related disclosures. Cowen et al. (1987) analyse the relationships between independent corporate characteristics and various types of disclosure (for example, environment, energy, fair business practice, human resources, community involvement, products and other disclosures) for a relatively small US sample consisting of predominantly large companies. Deegan et al. (1995) examine the practices and policies of large Australian companies in producing special purpose employee reports rather than the disclosures present in annual reports. Christopher and Siu-Chung Kong (1998) study human resource-related disclosures made by small Australian mineral mining companies. Rimmel's (2003) research investigates the relationship between information, providers and users of human

[4] See Appendix 3 for a list of the categories of employee disclosure used in past research.

resources disclosure in advanced annual reporting practices of two Swedish companies. Hossian et al. (2004) analyse the nature of voluntary disclosures on human resources in the annual reports of Bangladeshi companies. The current study analyses voluntary employee-related disclosures for all publicly listed companies in Australia with a balance date of 30th June 2004.

The study also provides descriptive material on the quantity and nature of voluntary employee-related disclosures in annual reports for Australian companies. An understanding of the influences on voluntary disclosures can be useful in annual reporting and financial statement analysis by allowing the users of this information to make informed judgments as to the quality of the information produced (Heitzman et al., 2010; Kent and Chan, 2009; Schuster and O'Connell, 2006).

Third, the results of this study assist regulators when considering disclosure regulations, by centring their attention on the perceived inadequacies in the current social reporting framework. The need to regulate employee-related disclosure is unnecessary if we find that companies are providing high quality disclosures voluntarily (Eng and Mak, 2003; Kent and Chan, 2009).

Fourth, the study provides a measure of quality of employee-related disclosures and compares this with a measure of quantity of employee-related disclosures. This measure is based on the Global Reporting Initiative (GRI) index, specifically, the "Labor Practices and Decent Work" indicators. These indicators act as a dialogue between the company and its employees, and the degree to which employees are organised in representative bodies. This measure of quality is important for future researchers when examining other social disclosures in annual reports in alternative regulatory frameworks.

Finally, Ullmann's three-dimensional framework is applied to the study to analyse stakeholder power, strategic posture and economic performance. This application of stakeholder theory has not been employed in this context before.

1.6 DEFINING VOLUNTARY DISCLOSURES

The Financial Accounting Standards Board (FASB) defines the term 'voluntary disclosure', as "information, primarily outside the financial statements, that are not explicitly required by accounting rules or standards". Recent guidelines provided by the FASB have recommended companies to make these disclosures in the Management Discussion and Analysis section of the annual reports (Boesso and Kumar, 2007).

Depoers (2000, p.246) conveys that the concept of voluntary information has to be defined in relation to the right to information of one or numerous types of stakeholders:

> "An item of information is considered as discretionary whenever it goes beyond the compulsory information for shareholders. Compulsory information has to be understood as all the items whose publication is duly required but also the items which firms must send to shareholders who ask for them (for example, social reporting). Whether its nature be qualitative, financial or anything else, voluntary disclosure covers all data which concern the subsidiaries and the group itself."

Voluntary information reported by Australian companies could include accounting and other information that managers consider to be significant and meet the needs of various stakeholder groups (Boesso, 2002; Meek, Roberts and Gray, 1995).

1.7 ANNUAL REPORT AS THE MEDIUM OF DISCLOSURE

Australian companies can choose to disclose information voluntarily through numerous media channels, with many empirical studies analysing the voluntary social disclosure framework by examining the incidence or content of the company's annual reports, company websites, separate social, environmental, and special purpose employee reports (Brammer and Pavelin, 2004; Campbell, Moore and Shrives, 2006; Gray et al., 1995a, 1995b; Guthrie and Parker, 1989; Hackson and Milne, 1996; Patten, 2002a; Robertson and Nicolson, 1996).

This study focuses on annual reports as the source of employee-related disclosures for the following reasons. First, all listed companies must produce an annual report and statutory auditors are required to ensure voluntary information is consistent with the audited financial reports, otherwise a modified opinion is given (Australian Government, Auditing and Assurance Standards Board 2011; Kent and Zunker, 2010). Second, companies have editorial control over the voluntary information published in their annual reports and are less susceptible to the potential risk of external media interpretations or falsification, possible through the popular press (Campbell, 2000; Guthrie and Parker, 1989). Third, the annual report is the central source of corporate communications to investors and other stakeholders, and is widely used by companies for various voluntary social disclosures (Campbell, 2000; Rockness, 1985; Wiseman, 1982).

Former social reporting research (Cowen et al., 1987; Freeman and Jaggi, 1986; Gray et al., 1995b; Guthrie and Parker, 1989; 1990; Guthrie, Petty, Yongvanich and Ricceri, 2004; Neu et al., 1998; Roberts, 1992; Wiseman, 1982) extensively used the annual report as a major medium for communicating social (and environmental) information to the public. The annual report presents a historical account of the activities of a company and its management’s perceptions, in a comprehensive and compact format (Niemark, 1995). O'Donovan's (1999, p.82) data analysis suggested that “corporate management believe, to some extent, that the annual report is an effective way for informing and educating the public of the corporation's view about certain environmental (or social) issues".

1.8 ORGANISATION OF THESIS

The thesis is structured as follows: Chapter One discusses the research proposal and provides an overview of the scholarly developments in social responsibility accounting that encompasses this area of research. It also summarises core concepts of the study and highlights the study's contributions to knowledge. Finally, motivations for conducting the research are outlined and definitions of terms predominantly used in this thesis are presented.

Chapter Two reviews past research on corporate social responsibility reporting. This incorporates a discussion on the debate as to the extent to which the company as an institution has social responsibilities beyond profit maximisation and an examination of the various conceptual frameworks that have been applied in the study of this area including stakeholder theory, legitimacy theory, social contract theory, political economic theory, institutional theory, and media agenda setting theory.

Chapter Three explains the development of the hypotheses to be tested in this study, drawing on Ullmann's three-dimensional model to explain the quantity and quality of voluntary employee-related disclosures in companies' annual reports. It also outlines the selection of the constructs to be implemented in the models and the related methodological issues are covered.

Chapter Four reviews the research method including the sample selection, data collection process and measurement of the variables. Chapter Five involves a discussion of the results and sensitivity analysis, and Chapter Six provides a discussion of the conclusions drawn from the results, acknowledges the limitations of the study and provides suggestions for further research.

1.10 CHAPTER SUMMARY

This chapter presents an introduction to the thesis, the background of the research field, a brief explanation of important terms within the thesis, and the identification of the research issues and objectives. The motivation driving the research and the contribution of the study are discussed with regards to theory, research, and practice. An overview of the structure of the thesis concludes the chapter including a summary of the sections that follow. The next chapter presents the literature pertinent to guiding these research issues.

CHAPTER 2

THEORETICAL FRAMEWORK

2.1 INTRODUCTION

Employee-related disclosures are one of the categories included in the field of social responsibility reporting. This chapter reviews existing corporate social reporting theories and past research in corporate social responsibility and Ullmann's stakeholder framework. Prior research identifies companies' motivation to provide employee-related disclosures and develops a theoretical framework to guide the exploration of the research issues.

Several researchers (Gray, Owen and Adams, 1996; Deegan, 2002) apply stakeholder and legitimacy theories to explain how the social and environmental reporting practices of companies (for example, the disclosure of information in the annual report) respond to certain pressures being exerted by particular communities or stakeholder groups. In addition to these theories, other complementary theories have also emerged in the social and environmental accounting literature.

Social contract theory, political economy theory, institutional theory, and media agenda setting theory have all been applied to explain social and environmental reporting practices with agency and signalling theories also being considered as alternatives.

This chapter provides an overview of these theories, as they are the basis for the examination of corporate social responsibility in subsequent chapters. Social and political theories are the primary theories that are appropriate to the voluntary disclosure of employee-related information, and are the key focus of this literature review.

2.2 CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) in its simplest form contains information reported by companies concerning their activities and reporting about companies by third parties; information in the annual report and any other form of communication; public and private information; or information in any medium (whether it is financial, non-financial, quantitative or non-quantitative) (Bebbington et al., 2008; Bhattacharya, Korschun and Sen, 2009; Cormier and Magnan, 2010; Gray et al., 1995a). The World Business Council for Sustainable Development (2000) proposes a definition for corporate social responsibility as:

> "…the ethical behaviour of a company towards society … management acting responsibly in its relationships with other stakeholders who have a legitimate interest in the business. CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" (pp. 2-3).

For the purpose of this study, corporate social responsibility is viewed as an umbrella concept which includes corporate citizenship, corporate sustainability, stakeholder management, environmental management, business ethics, competitive advantage and corporate social performance.

There are two distinct views regarding the concept of corporate social responsibility, extending from a traditional view of the firm (for example, Friedman, 1962) to a demand for a paradigm shift in corporate practice (for example, Carroll, 1991; Carroll, 1999; Dyllick and Hockerts, 2002). However, all views on corporate social responsibility are based on the principle that there is a strategic approach to environmental and social issues (Lyon, 2004). Therefore, corporate social responsibility incorporates corporate environmentalism (Dyllick and Hockerts, 2002). This leads to the current construct that corporate social responsibility includes any initiative that reduces the environmental impact and/or contributes to the improvement of the social conditions beyond the company's legal obligations (Roome and Wijen, 2006).

A growing number of scholars take the view that companies are social institutions rather than private institutions (Chen et al., 2008; Davis, 1960; Deegan, 2002; Dennis, Neck and Goldsby, 1998; Filios, 1984; Frederick, Post and Davis, 1992; Freeman, 1984; Friedman and Miles, 2001; Gao and Zhang, 2006; Harrison and Freeman, 1999; Lodge, 1977; Ullmann, 1985) and benefits emerging from companies should be shared collectively amongst stakeholders. This idea is similar to the stakeholder model (Freeman, 1984) and asserts that a company is responsible to its shareholders (owners) and all other stakeholders (for example, consumers, employees, creditors) whose contribution is necessary for a company's success. Thus, corporate social responsibility means that a company should be held accountable for any of its actions that affect people, communities and the environment in which those people or communities live (Frederick et al., 1992; Sutantoputra, 2009; De Villers and Van Staden, 2006).

Stakeholder theory can be regarded as a further refinement of the neoclassical view of the firm (Freeman and Liedtka, 1991). Based on empirical research, Clarkson's (1995) stakeholder view of a company is a structure of primary stakeholder groups, a complex set of relationships between and amongst interest groups with different rights, objectives, expectations and responsibilities (Clarkson, 1995). This pragmatic view of the firm indicates the complexity of stakeholder management.

Stakeholder management practices include instrumental approaches that use stakeholder relationships strictly as a mechanism to maximise profits, compared to normative approaches, where basic principles determine how a company carries out it's activities, particularly with respect to how they regard their stakeholders (Preble, 2005).

Although it is beyond the scope of this study to explore the reasons behind companies favouring economic objectives over the social objectives, it is understood that there is pressure from various interest groups for companies to recognise their responsibility to their investors and a broader group of people affected by their continued existence. The company's acceptance of its ethical and moral accountability to society, and acting on this accountability, is what advocates of corporate social responsibility broadly propose (Cragg, 2002).

2.3 FUNDAMENTAL THEORIES

Gray et al. (1995a) provide a comprehensive review of the literature on companies social (and environmental) disclosures and suggest that the motivations behind these disclosures can be classified into three broad theoretical perspectives: (1) studies concentrating on decision-usefulness explanations, (2) studies derived from economic theory, and (3) those studies based on socio-political theories. These theories interrelate in that they all suggest social disclosures are a significant strategic tool in the management of relationships between the company and stakeholder groups.

According to the decision-usefulness approach, corporate disclosures are attempts to remove informational asymmetries between the company and external agents, primarily agents in the investment community (Brammer and Pavelin, 2004). Empirical work that takes on this view attempts to evaluate the impact disclosures have on stock prices (for example, Shane and Spicer, 1983; Wood and Jones, 1995), but with largely inconclusive results. Economic approaches propose that social disclosures are used as preventative measures to reduce adverse regulatory or governmental pressures in the future. Managers are motivated to make disclosures of this kind because the failure to do so reduces their discretion over future investment opportunities (Watts and Zimmermann, 1978; Shane and Spicer, 1983). The socio-political approaches are those located "within a framework of assumptions about 'political economy'" (Gray et al., 1995a, p. 52).

The decision-usefulness approach (Dierkes and Antal, 1985) to investigating corporate social responsibility reporting has limitations. This results from the theoretical problems with "decision-usefulness" itself (see Laughlin and Puxty, 1981). The main difficulty has been that "interest in corporate social responsibility is not motivated predominantly by a concern with the needs, wants and whims of financial participants" (Gray et al., 1995a, p. 51) (see Booth, Moores and McNamara, 1987; Mathews, 1987; O'Donovan, 2002; Owen, Gray and Maunders, 1987).

Several empirical studies (for example, Belkaoui and Karpik 1989; Ness and Mirza, 1991; Panchapakesan and McKinnon, 1992; Shane and Spicer, 1983; White, Lee and Tower, 2007) have directly sought to establish evidence for positive accounting theory as an explanation for corporate social responsibility disclosure. Along with numerous other researchers, Gray et al. (1995a) believe the 'agency theory' and 'positive accounting theory' perspectives are less appropriate on the grounds of the underlying assumptions of the theoretical framework (see, for example, Ball and Foster, 1982; Puxty, 1986; Tinker, Merino and Neimark, 1982; Tinker and Puxty, 1995).

2.3.1 STAKEHOLDER THEORY

Stakeholder theory is used by researchers to explain motivations for companies to disclose social information. Since the publication of Freeman's (1984) work, the idea that companies have power over stakeholders has manifested in academic and professional literature. Stakeholder theory suggests that a company's management is expected to engage in activities that benefit specific groups or individuals (stakeholders) who can influence and who are affected by the achievement of a company's objectives (Boesso and Kumar, 2007; Deegan, 2002).

Stakeholder theory consists of the ethical and managerial branches (Deegan 2000; 2002). The ethical branch provides recommendations on how companies should treat their stakeholders. This theoretical view emphasises the responsibilities of organisations (see Donaldson and Preston, 1995; Freeman and Reed, 1983; Hasnas, 1998). However, it does not have a direct role in predicting managerial behaviour. By contrast, the managerial branch of stakeholder theory highlights the need to manage certain stakeholder groups. These are predominantly those that are deemed to be “powerful" due to their ability to control resources that are necessary to the company’s operations (Ullmann, 1985).

The managerial branch of stakeholder theory is employed by numerous researchers to determine why companies produce social information (Guthrie et al., 2004; Islam and Deegan, 2008; Reverte, 2009). Under the managerial branch, the central hypothesis is that corporate social disclosure is a management tool for overseeing the information needs of the numerous stakeholder groups (Abeysekera, 2006). Managers use this information to manage, or even manipulate, the most powerful stakeholders to gain their support (Gray et al., 1996). Information is disclosed for strategic reasons, rather than on the basis of any perceived responsibilities. Managers have an incentive to disclose information about their various programs and initiatives to particular stakeholder groups to indicate that they are conforming to stakeholders’ expectations.

A stakeholder’s power to influence a company’s management is viewed as a function of the stakeholder’s degree of control over resources required by the company. The greater the expectation that stakeholder demands are met, the more significant the stakeholder’s resources are to the ongoing success of the company (Gregoric and Debeljak, 2006). A successful company is considered to be one that satisfies the demands of the various stakeholder groups, even if those requests are conflicting (Ullmann, 1985). In exploring stakeholder theory and the role of information in managing the actions of significant stakeholders, Gray et al. (1996, p. 45) states:

> “ ... Information is a major element that can be employed by the organisation to manage the stakeholder in order to gain their support and approval, or to distract their opposition and disapproval. “

Based on this perspective, companies react to the demands of employees when unemployment is very low or when there are health and safety issues that need to be addressed. Companies use the disclosure of this information as a strategy to gain or maintain the support of its powerful stakeholders (Deegan and Blomquist, 2006). For example, if a powerful stakeholder group is concerned about the social performance of a company, that company publicly discloses information about social initiatives that it has, or plans to implement, to alleviate any concerns held by that particular stakeholder group.

Donaldson and Preston (1995) proposed a classification framework defining aspects of stakeholder theory as descriptive, instrumental, and normative. The 'descriptive' branch of stakeholder theory explains the past, present, and future activities of companies and their stakeholders and generates predictive propositions associated with stakeholder management. This element of theory is used to describe and even justify specific behaviours and characteristics of companies. The 'instrumental' approach seeks to examine specific links between stakeholder management and company performance. It explores how management encourages contributions from their stakeholders to accomplish the desired goals and objectives of the company. The 'normative' approach attempts to interpret the establishment of some underlying moral and philosophical principles.

Donaldson and Preston (1995) argue that the normative aspect of the theory is fundamental and is related to categorical issues of what is positive and negative behaviour by corporate managers. That is, there is a normative core in the stakeholder concept that can result in managers becoming sensitive to stakeholders' interests because it is morally right.

FREEMAN'S STAKEHOLDER APPROACH

Freeman (1984) established an innovative concept identified as the "stakeholder approach", attributable to his belief that the existing theories of the "production view of the firm" were inconsistent with the extent and the nature of changes that were occurring in the corporate environment during the 1980's. These changes shifted researchers' focus away from the "family-dominated business" and firms managed by owners, to non-owner firms that employed non-family members as employees. This identified the basic stakeholders as owners, employees, suppliers and customers. In 1984, Freeman made it clear that the existing approaches emphasised the fixed nature of companies, and the predictive and relatively certain parts of a company's external environment. He suggested that a new conceptual framework was required which led to the development of the stakeholder view of the firm. Specifically, Freeman suggested that companies should recognise their direct (primary) and indirect (secondary) stakeholders (Carroll, 1979; Wood, 1991).

Primary stakeholders are those characterised by high interdependence. They are the major contributors to the company's resources and without their cooperation or support the company cannot survive. They are identified as the shareholders, creditors, government regulators, customers, suppliers and employees. Secondary stakeholders are those who are not directly engaged in transactions with the company, and are not necessary for its survival, but may have the capacity to influence public opinion such as lobby groups, the media and other special interest groups (Clarkson, 1995).

Freeman suggested that companies do a value analysis, meaning that a company should look for "congruency or fit" (Key, 1999, p. 320) between the company itself and its stakeholders. To achieve this, a company needs to distinguish what it is willing to support and defend (Freeman, 1984). It encompasses a complete management strategy that has no particular "value" rather than identifying traditional ethics. Once identified and analysed for appropriateness, the key to managing stakeholder relationships is "utilitarianism" (Key, 1999). Explicitly, a company must make compromises between its goals and the objectives of its stakeholders and identify the effects that stakeholders have on the company, or that the company has on its stakeholders. Freeman

(1984) categorises these effects as economic, technological, social, political, and managerial. He outlines the “stake” that stakeholders have in the company as either equity, economic, or influencer and the power that they possess as voting power, economic power, or political power (Key, 1999).

Stakeholder theory has been applied to analytical and empirical analyses of the company and environment in which the company operates (Berman, Wicks, Kotha and Jones, 1999; Guthrie et al., 2004; Harrison and Freeman, 1999; Lo, 2010; Roberts, 1992; Ruf, Muralidhar, Brown, Janney and Paul, 2001; Ullmann, 1985). Relatively few studies have applied this theory by utilising Ullmann’s three-dimensional model as the foundation of their research.

ULLMANN'S FRAMEWORK

Extending the stakeholder approach presented by Freeman (1984), Ullmann conducted extensive research into the area of corporate social responsibility reporting. He established a three-dimensional framework of corporate social responsibility disclosure, which incorporated the elements of stakeholder power, strategic posture and the past and present economic performance of the company. Table 2-1 summarises the results of studies leading up to Ullmann’s paper in 1985.

TABLE 2-1 RESULTS OF STUDIES PRIOR TO ULLMANN

Database/ Relationship	Moskowitz	CEP	Ernst & Ernst	Other
Social disclosure / Social Performance	Bowman & Haire, 1975: + Preston, 1978: 0	Ingram & Frazier, 1980: 0 Freedman & Jaggi, 1982a: 0 Wiseman, 1982: 0 Rockness, 1985: 0 Freedman & Wasley, 1990: 0 Fekrat, Inclan & Petroni, 1996: 0 Patten, 2002a: -	Abbott & Monsen, 1979: +	Fry & Hock, 1976: - Cowen et al., 1987: 0 Patten, 1991: 0 Roberts, 1992: + Brammer & Pavelin, 2004: +
Social Disclosure / Economic Performance	Mills & Gardner, 1984: +	Shane & Spicer, 1983: +	Preston, 1978, +Abbott & Monsen, 1979: + Anderson & Frankle, 1980: +	Bowman & Haire, 1975: + Belkaoui, 1976: + Bowman, 1978: + Ingram, 1978: + Freedman & Jaggi, 1982a: 0 Ingram & Frazier, 1983: 0 or - Jaggi & Freedman, 1985: + or –
Social Performance / Economic Performance	Moskowitz, 1972: + Vance, 1975: - Sturdivant & Ginter, 1977: + Cochran & Wood, 1984: +	Bragdon & Marlin, 1972: + Bowman & Haire, 1975: + Fogler & Nutt, 1975: 0 Spicer, 1978a: + Spicer, 1978b: + Chen & Metcalf, 1980: 0		Parket & Eilbirt, 1975: + Vance, 1975: - Alexander & Buchholz, 1978: 0 Kedia & Kuntz, 1981: 0

Note: + positive correlation, - negative correlation, 0 no correlation.

SOURCE: ULLMANN (1985, P.542)

Numerous studies have investigated the relationship between social disclosure, social performance, and economic performance, which were comprehensively examined by Ullmann (1985).

Ullmann's three-dimensional model partly explains the conflicting results regarding the correlations among social disclosure and social and economic performance (Ullmann, 1985). He concluded that the inconsistent results were attributed to the lack of a comprehensive theory of corporate social responsibility. Above all, he argued that the existing models were not fully specified because they failed to take into account the element of strategy by a company. The fundamental principle of stakeholder theory is that companies use social disclosures as a means to manage their relationships with their stakeholders and the external environment (Ullmann, 1985). Ullmann's framework is useful in explaining associations between social disclosures and performance, and economic performance. He suggested that future research into this field should focus on a unifying theory of corporate social responsibility reporting, rather than controlling for an increasing number of variables.

(I) STAKEHOLDER POWER

The first dimension of Ullmann's model, *stakeholder power*, is the underlying theoretical basis of the framework. Although implied within legitimacy theory, stakeholder theory explicitly refers to matters of stakeholder power and how a stakeholder's (for example, employee) relative power impacts their ability to persuade the company into complying with the stakeholder's demands (Clarkson, 1995; Deegan and Blomquist, 2006; Roberts, 1992). Stakeholder demands are more likely to be met when more stakeholder resources are deemed to be crucial to the ongoing success of the company. Given that social responsibility activities are seen as an effective management strategy for dealing with stakeholders, then it is expected that stakeholder power is positively associated with social performance and social disclosure (Roberts, 1992). Ullmann proposes that companies with an active strategic posture make deliberate and conscious efforts to satisfy stakeholder demands through actual performance and disclosure of information about that performance when stakeholder power is high. Demands of stakeholders are predominantly neglected when their stakeholder power is low.

Within this approach, the accountability of companies extends beyond their financial and market performance. It is expected, therefore, that companies choose to voluntarily disclose information about their stakeholder management efforts beyond mandatory requirements. The more important the stakeholder resources are considered to the continued success of a company, the higher the expectations are that the company fulfils the needs of stakeholders and communicates it's efforts through voluntary disclosures and other forms of reporting (Kent and Chan, 2009).

An important issue is to identify the stakeholder groups that management wish to satisfy (see Freeman, 1994). Mitchell, Agle and Wood (1997) developed a model of stakeholder identification and salience based on stakeholders possessing one or more of the attributes of power, legitimacy, and urgency. This theory produces a comprehensive typology of stakeholders based on the normative assumption that these variables define the field of stakeholders whom management consider to be important.

(II) STRATEGIC POSTURE

The second dimension of Ullmann's model is *strategic posture*. This clarifies management's reasons for responding to the demands of the stakeholders. Strategic posture is considered to range from active or passive. An active posture indicates that managers seek to influence, and continually monitor the company's relationship with key stakeholders to achieve optimal levels of interdependence and pursue optimal stakeholder strategies (Ullmann, 1985). For example, when management exercises an active strategic posture, and financial performance is good, a high level of social disclosure is expected if those that demand this disclosure are powerful. In this circumstance, management communicates its success across the entire performance spectrum (Ullmann, 1985). This indicates they disclose more than is required by professional or regulatory authorities to promote extensively their social responsibility. In contrast, a passive posture indicates a company fails to actively supervise and seek optimal stakeholder management strategies.

(III) ECONOMIC PERFORMANCE

The final dimension of Ullmann's framework is the *company's past and current economic performance*.

Economic performance is an important element in the model for two reasons. First, it influences the relative importance of a social demand and determines the significance placed on the social demands by decision makers. Economic demands have priority over social demands in periods when companies have low profitability and high debt (Artiacha, Leea, Nelsonb and Walker, 2010; Ullmann, 1985). Second, a company's economic performance influences their financial capabilities to provide costly voluntary social disclosures to meet the demands of their stakeholders (Einhorn and Ziv, 2008; Magness, 2006).

The cost of obtaining particular information may deter 'inferior' companies from disclosing this sort of information (Lang and Lundholm, 1993; Neu et al., 1998). Additionally, the potential litigation costs of non-disclosure could be higher for successful companies than for unsuccessful ones (Skinner, 1994).

Numerous studies from the past 30 years report either no significant relationship or a negative relationship between environmental disclosure and environmental performance (see Wiseman, 1982; Rockness, 1985) or economic performance (see Patten, 1991, 1992, 2002a; Freedman and Jaggi, 1996; Hughes, Anderson and Golden, 2001). As a result, Freedman and Jaggi (1996) concluded that environmental disclosures cannot be used as a proxy for environmental performance.

Cowen et al. (1987) and Patten (1991) find no relationship to profit in the same period, but Roberts (1992) found that social disclosure was related to strong economic performance in the previous period when measured by growth in return on equity.

Freedman and Jaggi (1992) find no long-term relationship between pollution performance and financial performance in the pulp and paper industry. However, Russo and Fouts (1997) find a positive association of environmental and financial performance across a variety of industries. Freedman and Jaggi (1988) and Neu et al. (1998) find that large companies with lower financial performance provide more social disclosures. Alternatively, Cormier and Magnan (1999) find large companies with good financial performance make more disclosure. These inconsistent findings and the uncertainty as to management's objective is an avenue for continued research

(Gray et al., 1995a; Magness, 2006).

Roberts (1992) presents empirical evidence supporting the hypothesis that high stakeholder power, an active strategic posture, and good financial performance contribute to good social disclosure. Roberts applies Ullmann's (1985) model to understand the determinants of corporate social responsibility disclosures in general using a disclosure index. Roberts' study did not differentiate between mandatory and voluntary disclosure, nor did it investigate potential interactions among variables. Both are considered essential in the analysis, given Ullmann's idea that management utilises voluntary disclosures as a way to shape stakeholder demands when financial performance is good.

Several previous studies have adopted Ullmann's framework (Kent and Chan, 2009) and examined the environmental disclosures from top listed companies. Kent and Chan (2009) evaluated the content of the annual reports for 1995. They regressed the quality and quantity of environmental disclosures against the variables chosen using Ullmann's three-dimensional framework and found numerous support for power and posture, but not past or present economic performance. Their findings enhance our knowledge on how Australian companies manage their stakeholders using environmental disclosures.

Elijido-Ten (2005) used stakeholder theory to examine the determinants of environmental disclosures in Malaysian companies. The regulatory framework in Malaysia has no mandatory environmental reporting and the companies' environmental performance is kept confidential. The findings suggest that the main determinants in providing environmental disclosures is the level of environmental concern by top management (a measure of strategic posture) and the government's power to sanction companies (a measure of stakeholder power). Measures of economic performance show no significant relation with the level of environmental disclosure.

2.3.2 LEGITIMACY THEORY

Legitimacy theory is perhaps the most widely used theory to explain environmental and social disclosures (see for example, Adams et al., 1998; Deegan and Gordon, 1996; Guthrie and Parker, 1989; Milne and Patten, 2002; O'Donovan, 2002; O'Dwyer, 2002; Patten, 1991; Wilmhurst and Frost, 2000). Although other theories are used to explain social disclosure, it appears that legitimacy theory has become the dominant explanatory theory in this domain (Deegan, 2000).

Legitimacy theory, regarded as a systems-oriented theory, is closely associated with stakeholder theory and political economy theory (Deegan, 2002). Within a systems-oriented perspective, the company is influenced by the society in which it operates. Corporate disclosure policies are considered to represent one important method by which management can influence external perceptions about their company's activities (Deegan et al., 2002; Pfeffer and Salancik, 1978; Woodward, Edwards and Birkin, 2001). In relation to legitimacy, these strategies include directed disclosures, and controlling or working in partnerships with other companies that are considered to be legitimate (Fiedler and Deegan, 2002).

Legitimacy theory is derived from the concept that companies operate in society by means of a "social contract" where they seek to satisfy their stakeholders by behaving in a socially desirable manner (Brown and Deegan, 1998; Donaldson, 1982; Shocker and Sethi, 1974). By providing relevant and reliable social information companies anticipate that society approves their objectives, other incentives, and ultimately their survival (Dowling and Pfeffer, 1975; Guthrie and Parker, 1989). The social contract is used to represent the large number of expectations that society has on how the company should conduct its operations. These expectations from society are not fixed, but change over time. This compels the company to be more responsive to the setting in which it operates (Deegan, 2000). Historically, legitimacy theory assumes that companies disclose information as a reaction to various economic, social, political, and environmental factors, and that these disclosures legitimise the company's actions (Brown and Deegan, 1998; Buhr, 1998; Kotonen, 2009; Lindblom, 1983; Neu et al., 1998; Shocker and Sethi, 1974).

Lindblom (1994) distinguishes between legitimacy, which is considered to be a status or condition, and legitimation, which she considers to be the process that leads to a company being deemed legitimate. "Threats" to a company's perceived legitimacy are predicted to lead to responsive actions by management who endeavour to minimise the impacts of these legitimacy threats. Within this theory, "legitimacy" is considered to be a resource on which a company is dependent for survival (Dowling and Pfeffer, 1975, O'Donovan, 2002). It is something that is conferred upon the company by society and is something that is desired or sought by the company. However, unlike many other "resources", it is a resource that the company is considered to be able to impact or manipulate through various disclosure-related strategies (Woodward, Edwards and Birkin, 1996).

The insights provided by legitimacy theory suggest that the company must be responsive to changing expectations. Legitimacy theory predicts that when managers perceive that a legitimacy gap exists they implement different legitimation strategies (Lindblom, 1994). First, the company seeks to educate and inform its "relevant publics" about changes in the company's performance and social activities. This response arises when a "legitimacy gap" has developed from the poor performance of the company. Second, the company aims to change the perceptions society has of their behaviour rather than the behaviour itself. This strategy is in response to the legitimacy gap that occurs through misperceptions of the stakeholders (Deegan and Blomquist, 2006). Third, the company seeks to influence perception by deflecting attention from the issue of concern to other related issues through an appeal to, for example, emotive symbols (Brown and Deegan, 1998). This strategy is chosen on the grounds of manipulation. For example, a company with a legitimacy gap regarding its employee health and safety potentially ignores the problem and instead becomes involved in staff activities that promote the company as a socially responsible employer. Fourth, the company seeks to change external expectations of its performance. This strategy is chosen when the company considers that society has unrealistic or inaccurate expectations of its responsibilities.

Numerous studies have embraced legitimacy theory as the foundation of their investigation into the motivations of corporate managers to make social disclosures. Guthrie and Parker (1989) sought to match the disclosure practices of BHP across the period 1885-1985 with a historical account of major events relating to BHP. The argument was that if corporate disclosure policies are reactive to major social and environmental events, correspondence should exist between points of disclosure and events that are significant in BHP's history. Although their paper did not provide strong evidence supportive of legitimacy theory, a large number of subsequent research studies have used and refined their arguments (see Boesso and Kumar, 2007; Brammer and Pavelin, 2008; Brown and Deegan, 1998; Deegan et al., 2000; Deegan et al., 2002; Epstein and Freedman, 1994; Tsang, 1998). The result has been that corporate social and environmental disclosure strategies have been linked to legitimising objectives.

Deegan (2002) expanded Guthrie and Parker (1989) by investigating the social and environmental disclosure policies of BHP for the years 1983-1997. He investigated whether the extent of community concern relating to particular issues associated with BHP's operations in turn extracts certain disclosure reactions from the company. The measure of "community concern" used by Deegan is based on the extent of media attention given to particular issues. The underlying proposition is that changes in social concerns, reflected by changes in terms of print media articles, are imitated by changes in the social and environmental matters disclosed and by the extent of the disclosure being made. Supportive of legitimacy theory, the findings show that those issues that attracted the largest amount of media attention were also those issues that were associated with the greatest amount of annual report disclosures. These results provide support to legitimation objectives for a company's social disclosures and also support O'Donovan's (1999; 2002) conclusions that managers make annual report disclosures in response to media coverage.

Deegan et al. (2000) conducted a study indicating companies operating in industries that experienced major social incidents provided more social information in their annual reports than they did prior to the incident's occurrence. These results support the notion that companies utilise their annual report as a way of influencing society's perception of their operations and as a means of legitimising their ongoing existence (Deegan et al., 2000). This emphasises the importance of companies acting in a manner deemed by the public as socially acceptable behaviour (O'Donovan, 2002). Companies lose their freedom to operate in society by disregarding society's norms and expectations (Kent and Monem, 2008).

Yongvanich and Guthrie (2007) developed an "extended performance reporting framework" which integrates reporting of intellectual capital and environmental and social performance elements into a single framework. Their study employed the framework to analyse the voluntary reporting practices of a group of companies in the Australian mining industry. They examined the presence of disclosure, and also the information that companies chose not to report in the absence of disclosure. Legitimacy theory was considered as an explanation for the reporting practices observed.

Other studies directly rely on insights provided by corporate managers or recipients of corporate disclosures (Milne and Patten, 2002; O'Donovan, 2002; O'Dwyer, 2002). These papers are significant in that they indicate an alternative approach to testing corporate motivations. The direct questioning of managers for the purposes of testing legitimacy theory had previously only been undertaken by a limited number of researchers (Buhr, 1998; O'Donovan, 1999). The studies by O'Donovan (2002) and Milne and Patten (2002) produce findings that are generally supportive of legitimacy theory in explaining annual report social disclosure practices.

O'Donovan (2002) explicitly recognises that manager's legitimising strategies differ depending upon whether they are trying to "gain, maintain, or repair" the legitimacy of their company. This can be compared to other studies that only investigate management responses to perceived legitimacy threats (O'Dwyer, 2002). Given the lack of research into corporate strategies for acquiring and sustaining legitimacy, O'Donovan (2002) represents an important contribution to the literature. He explains that maintaining legitimacy is expected to be easier than gaining or repairing it and recognises that different companies have different "levels" of legitimacy to maintain. Companies that have greater needs to maintain their legitimacy have greater reliance on legitimacy for commercial purposes. Disclosure reactions are also found to differ depending upon whether the action was necessary to gain, maintain, or repair legitimacy. O'Donovan concentrates on managers' reactions to particular events using survey responses, however there is very little evidence about whether legitimising strategies actually change attitudes about an organisation.

Milne and Patten (2002) investigate the function environmental disclosures play in generating a legitimating effect on investors within the chemical industry. They used an experimental investment scenario case, asking a sample of American practicing accountants how they would allocate funds across two fictitious chemical companies. The allocations were made under a short and long-term timeline where the disclosures for the companies were manipulated so that the poorer social performer had substantially greater exposure than the better performer. Results indicated that under the long-term scenario significantly fewer investment funds were allocated to the poorer social performer. Environmental concerns played a major role in the decision for the majority of the participants. Under the short-term scenario the participants interpreted higher environmental exposure as a signal of greater risk, therefore allocating more funds to the better performer. This suggests that for long-term investment settings the utilisation of legitimising disclosures is a beneficial strategy for companies with other exposures.

Evidence also shows that managerial objectives for undertaking legitimising actions are dependent upon various contexts that influence the level of public exposure and public responsibility attached to a company. Clarke and Gibson-Sweet (1999) propose that corporate disclosure policies are better described as ongoing means of reinforcing corporate legitimacy rather than as a crisis management tool. They demonstrate empirically that managers of larger companies, in industries with a high public profile, were inclined to use their annual reports to capitalise on their investments in the community by making more disclosures (Adler and Milne, 1997; Brammer and Pavelin, 2004; Guthrie and Parker, 1989; Gray et al., 1995a, b). Consistent with this, Toms (2000) shows empirically that larger companies from politically sensitive industries disclose higher quality information.

2.3.3 SOCIAL CONTRACT THEORY

Social contract theory, considered a normative theory of business, is closely related to stakeholder, legitimacy and political economy theories (Donaldson and Dunfee, 1994; Hasnas, 1998; Moir, 2001). However, in its most widely accepted form, social contract theory proposes that all companies are morally obliged to look after the interests of society by satisfying the stakeholders (for example, employee) interests without breach of any general laws of justice (Hasnas, 1998). Social contract theory is based on the traditional concept of a social contract, an implicit agreement between society and a company, where society acknowledges the existence of the company on the condition that it acts in society's best interests (Deegan et al., 2002; Shocker and Sethi, 1974).

Gray et al. (1996) suggest that legal requirements provide the explicit terms of the contract, while other unregulated societal expectations represent the implicit terms of the contract, where companies are provided with the right to exist in return for certain stakeholder benefits. It is expected that management's perceptions differ greatly in relation to the arrangement of the implicit terms of the “contract”.

In the corporate social responsibility framework a competing view is that companies will perform in a responsible manner because that is how society expects the company to operate. Contemporary versions of social contract theory attempt to show that individual and social group rights are established on mutually beneficial agreements that are made between members of society (Rawls, 1999). For example, legal restrictions may be imposed, access to financial and human resources may be restricted, and demand for products or services can be reduced. A company loses the power to own and use natural resources and to hire employees when the stakeholders perceive that a company’s cost is greater than its benefits to society and this threatens company survival. Companies are deemed to achieve greater financial success when they manage to successfully communicate that they are acting in accordance with the terms of the social contract and contributing more benefits than harm to society. There is empirical evidence that demonstrates that investors are willing to pay a premium for socially responsible corporate behaviour (Toms, 2000).

Hasnas (1998) illustrates that the social contract needs to satisfy the ‘social welfare term’ and the ‘justice term’. The social welfare term acknowledges that society is willing to authorise the existence of companies, as long as they receive benefits from the outcome. Employees can benefit from the existence of companies by receiving increased income potential, diffused personal legal liability for harmful errors, and the ability to participate in income-allocation schemes detached from the unexpected changes of their capacity to produce. However, companies can also have negative effects on their stakeholders (for example, employees). Employee’s interests can be harmed when they are separated from the product of their labour, suffer from poor working conditions, and are subjected to tedious and de-humanising working environments. These represent the benefits that companies can provide to society and costs that companies can impose upon society. Therefore, the social welfare term of the social contract requires that companies act in a way that benefits employees by increasing their income potential, diffusing their personal liability, and facilitating their income allocation. This is implemented by minimising the misuse of political power, worker alienation, lack of control over working conditions, and de-humanisation (Hasnas, 1998; Kolk and Pinkse, 2010).

The justice term recognises that the stakeholders are willing to authorise the existence of companies only if companies agree to remain within the general laws of justice. However, there seems to be general agreement that the least they require is that companies avoid fraud and deception, show respect for their workers as human beings, and avoid any practice that systematically disadvantages the situation of a given group in society (Donaldson, 1989). In general, social contract theory supposes that managers are ethically obligated to abide by the social welfare and justice terms of the social contract (Campbell, 2007; Davis, 1973; Hasnas, 1998; McWilliams and Siegel, 2001). These terms impose significant social responsibilities on the management of companies.

Donaldson and Dunfee (1999) develop 'Integrated Social Contracts Theory' as a way for managers to make decisions from a moral perspective. They differentiate between macro-social contracts and micro-social contracts. A macro-social contract in the societal framework is an expectation that companies provide some level of support to its stakeholders and the specific form of contribution is the micro-social contract. Therefore, companies that embrace the view of social contracts describe their contribution as part of 'societal expectation'. However, whilst this explains the initial motivation, it might not explain their total involvement. One of the benefits that were identified in the Australian study (CCPA, 2000) was described as 'license to operate'. This might be regarded as part of the commercial benefit of enhanced reputation but also links to gaining and maintaining legitimacy (Suchman, 1995).

2.3.4 POLITICAL ECONOMY THEORY

Political economy theory provides another interesting and insightful theoretical perspective explaining social responsibility reports from social and political theory. Gray et al (1996, p. 47) defines the "political economy" as "the social, political and economic framework within which human life takes place". Political economy theory clearly recognises the variance in power that exists within society and the conflict that transpires between numerous stakeholder groups. The notion embraced in political economy theory and legitimacy theory is that society, politics, and economics are closely related and financial issues cannot be examined without considering the political, social and institutional framework in which the company operates (Deegan, 2002). Political economy theory provides researchers with a better understanding of the issues that impact how a company functions and the type of information it chooses to disclose.

Therefore, the economic domain cannot be studied in isolation from the political, social, and institutional framework within which the economic activity occurs (Abeysekera and Guthrie, 2005; Deegan, 2002). This idea appears to be an appropriate way of thinking about voluntary social disclosure by companies (Benston, 1982a). Corporate social responsibility is generally predicated on acknowledgment that the economic (or financial) domain is only one element of corporate existence and this needs to be supplemented by or associated with recognition of the social and political environment (Deegan, 2002).

In contrast to legitimacy theory, political economy theory argues that companies provide disclosure in a manner that sets and shapes the agenda of the social contract, in order to mediate, suppress, mystify, and transform the conflict between the company and its social, economic, and political environment (Cooper and Sherer, 1984; Tinker and Neimark, 1987).

Empirical research performed by Guthrie and Parker (1990) and Tinker and Neimark (1987) that examines political economy theory (Arnold, 1990; Burchell, Clubb, Hopwood, Hughes and Nahaplet, 1980; Cooper and Sherer, 1984; Tinker, 1980) concludes that the annual report is a key tool used to publicise a company's principles on social, economic, and political areas. Whether by actively disclosing information (Adams and Harte, 1998; Neimark, 1992), by choosing not to disclose certain information (Chwastiak and Young, 2003), or by using carefully worded phrases the annual report legitimises actions that are coordinated from a position of power (Tinker and Neimark, 1987). Social disclosures legitimise companies' productivity, processes and objectives, as well as the economic, social, and political system as a whole (Gray et al., 1995a; Gray et al., 1996). Therefore, when researchers analyse a company's conduct, specifically when they exhibit how companies are seeking to inform, educate or manipulate society using social disclosure information, they could be identifying strategies with a broader influence. This has not been explicitly considered in previous social disclosure studies (Archel, Husillos, Larrinaga and Spence, 2009).

Abeysekera and Guthrie (2005) make note of the political economic theory perspective in their intellectual capital disclosure study of Sri Lanka. They report that their results differed from the findings on social and environmental disclosure in other countries (Hughes et al., 2001) and intellectual capital disclosure in other studies. They conclude that external capital is associated with a greater level of disclosure than human capital (Guthrie, 1999; Guthrie, Petty, Ferrier and Wells, 1999; Guthrie and Petty, 2000; Hughes et al., 2001). Abeysekera and Guthrie (2005) explain that different user groups do not exert any pressure on companies to disclose intellectual capital information, as they are not mandated by accounting standards, company law, or other regulatory requirements. Rather, it is in the company's own interest to disclose this information to stakeholders to improve the perceived value of the company.

Political economic theory appears to provide a more appropriate way of evaluating intellectual capital disclosure. It establishes more extensive, systematic factors into the interpretation and justification of intellectual capital disclosure; therefore expanding the researcher's focus of investigation and introducing this area of research in its broader socio-economic and political framework (Abeysekera, 2006).

2.3.5 INSTITUTIONAL THEORY

Reflecting the overlapping nature of many theories, the idea of legitimacy is also essential to institutional theory (DiMaggio and Powell, 1983). Companies change their structure or operations to conform to external expectations about what forms or structures are satisfactory. Many other companies in an industry have clear governance structures in place and there is likely to be "institutional" pressure on a company to also have these structures. Specifically, there is expected to be some form of movement towards 'conformance' with other respectable companies (Deegan, 2002; Meyer and Rowan, 1977; Neville and Menguc, 2006).

Institutional theory is used to explain existing corporate structures and has been used to show that particular operating or reporting policies and structures are employed because of pressures from stakeholders who expect to see particular practices in place. It is also used to explain why there is often a degree of association between the institutional practices used within different companies (Islam and Deegan, 2008).

Threats to a company's survival arise if they fail to undertake this process leading to equality, referred to as "isomorphism" (DiMaggio and Powell, 1983). Two types of isomorphism are 'competitive' and 'institutional'. Companies compete for resources and customers, as well as political power and institutional legitimacy, creating greater social and economic capabilities.

Dillard, Rigsby and Goodman (2004, p. 509) explain that "isomorphism refers to the adaptation of an institutional practice by an organisation". Companies become more homogeneous in structure, environment, and behavioural focus when there is a greater dependence between companies (DiMaggio and Powell, 1983).

The view provided by institutional theory implies that companies are persuaded into adopting and maintaining certain practices, including specific reporting practices, by their powerful stakeholders. The apparent adoption of these practices is deemed to provide a company with a level of legitimacy that would not otherwise be available if it was to deviate from "accepted" corporate structures or policies (Islam and Deegan, 2008).

Institutionalism, particularly in industries with high levels of cohesiveness, suggests high levels of conformity and imitating behaviour leading to isomorphism. Consequently, within the chemicals, oil, and mining industries it is expected that there is less variability in social (and environmental) narratives than other industries. Companies that adopt initiatives and rituals to seek legitimacy, as institutionalism predicts, are likely to be similar and consequently this should be reflected in corporate communications such as corporate social reports. Therefore, institutional theory provides a basis to examine the nature of corporate messages, the extent to which they reflect corporate adaptations, and the extent to which such adaptations approach conformity in certain industries (Milne and Patten, 2002).

Another viewpoint on legitimation emphasises its institutional nature (Suchman, 1995). Institutionalists (for example, Meyer and Rowan, 1977; Zucker, 1977; DiMaggio and Powell, 1983; Meyer and Scott, 1983) have a tendency to "downplay" managerial agency and manager-stakeholder conflict. In a powerful and confining environment a manager's decisions are often built on the same belief systems that determine stakeholder's reactions. Subsequently, rather than investigating the strategic legitimation efforts of specific companies, institutionalists highlight the entire group (DiMaggio and Powell, 1983) or entire fields or sectors of corporate life (Suchman, 1995).

Much management behaviour, including attempts to legitimise, are controlled by institutional pressures rather than managers. This produces a lack of flexibility and create tendencies towards isomorphism within the corporate field (DiMaggio and Powell, 1983).

However, these pressures may be subtle and pervasive, yet powerful myths of why companies ought to exist and how they ought to behave. Consequently actions and decisions, including ceremonies and rituals, may occur with little awareness (Milne and Patten, 2002).

Limited research has explored whether institutional conditions affect the desire for companies to behave in socially responsible ways (Campbell, 2007; Ullmann, 1985). Waddock and Graves (1997) find that an increase in corporate financial performance is positively associated with an increase in corporate social responsibility. Their analysis features a refined multidimensional measure of corporate social responsibility. The independent variables included in their analysis, other than measures of corporate financial performance, are company size, management's risk tolerance, and type of industry. Most studies of the determinants of corporate social responsibility examine the effects of various aspects of corporate financial performance but little else (for example, Brown and Perry, 1994; Fry, Keim, and Meiners, 1982).

2.4 SUPPLEMENTARY THEORIES

Social and political theories (such as stakeholder, legitimacy, social contract and political economy) are more extensively used to explain social disclosures than any other set of theories (see for example Adams et al., 1998; Clarkson, 1995; Deegan and Gordon, 1996; Donaldson and Preston, 1995; Guthrie and Parker, 1989; Milne and Patten, 2002; O'Donovan, 2002; O'Dwyer, 2002; Patten, 1992; Roberts, 1992; Wilmhurst and Frost, 2000). However, there are numerous other theories that can be employed and have been previously used to explain social disclosure. They are useful in interpreting incentive employee-related disclosures and are referred to in the following section.

2.4.1 MEDIA AGENDA SETTING THEORY

Within the legitimacy theory framework, the quantity and quality of social information disclosed is expected to change as a result of the degree of public scrutiny of the company (Edelman 1990; Kuasirikun and Sherer, 2004; Lee, 2008). Media agenda setting theory suggests a relationship between the relative emphasis given by the media to different topics and the degree of importance these topics have for society (Ader, 1995). Increased media attention is believed to lead to increased community concern for a particular issue. The media are not seen as mirroring public priorities, but as shaping them (Brown and Deegan, 1998).

The intensity of the media coverage is also found to affect the probability that particular media coverage impacts the public agenda, although it is not clear what extent of coverage is required before an agenda-setting effect is formed (Brosius and Kepplinger, 1990). The way in which the media covers the issue can also affect the likelihood of whether it impacts public attitudes. Dearing and Rogers (1996) establish that an issue presented in a negative light is more likely to be regarded by the community as an important concern. That is, negative media attention is more likely to have an effect on the public's salience for a particular issue relative to positive, or favourable, attention (Deegan et al., 2002).

The importance that the public assign to an issue is influenced by the amount of media attention it receives (for example, see Ader, 1995; Funkhouser, 1973; McCombs and Shaw, 1972). Public concern for an issue increases with the number of media articles between “takeoff" and “tapering" thresholds. A certain “critical" number of articles are required to move an issue to one of public concern and the pattern of evolving public awareness varies for different types of issues (Neuman, 1990). The response function varies according to the issue covered, however there is consistent evidence of a relationship between the volume of media coverage and the level of public concern. To this point, a shifting pattern of social disclosures across companies, and time, has been displayed (for example, see Deegan and Gordon, 1996; Guthrie, 1982; Guthrie and Parker, 1990; Pang, 1982). It is likely that the company undertakes steps to demonstrate its legitimacy and relevance to society and so avoid potential limitations and/or penalties when management perceive that, in the opinion of the “relevant publics”, the company is not meeting its “social contract” with society. Research has shown that management consider that the media can influence community concern and that management uses the annual report to counteract unfavourable media coverage (O'Donovan, 1999).

Therefore, media agenda setting theory has its inherent limitations, in that “there is a possibility that dominant players strategically plan the timing and format of their disclosures in a bid to manipulate or shape community perceptions and concerns” (Brown and Deegan, 1998, p.33). This appears to do nothing more than admit the possibility that political economy theory (Guthrie and Parker, 1990) represents the more correct interpretation. The problem with media agenda setting theory is its extremely limited orientation, in that it does not consider alternative perspectives of corporate social responsibility. Thus, media agenda setting theory and organisational legitimacy are clearly perceived, not as alternatives, but rather as complementary theories.

Research indicates that the media influences the public's perceived salience for issues (Smith, 1987; Brosius and Kepplinger, 1990; Ader, 1995), and that the media agenda typically precedes public concern for particular issues (McCombs and Shaw, 1972; Funkhouser, 1973; Trumbo, 1995; Neuman, 1990). Research also shows that public concerns and the media agenda are not necessarily reflective of “real world" conditions (Funkhouser, 1973; Ader, 1995). For example, Ader (1995) finds that the amount of media attention devoted to pollution influenced the degree of public salience for the issue, but the “real-world" pollution indicator was negatively correlated with the amount of media coverage.

A review of the literature suggests that a number of variables mediate the relationship between media activity and public salience of an issue. These variables include the obtrusiveness of issues, how the issue is framed (positive or negative), and associated time lags. Brown and Deegan (1998) provided a theoretical link between legitimacy theory and the media agenda setting theory with reference to environmental disclosure. They propose that increased media attention is expected to increase public concern for an issue. Consequently, it could be said that the print media can influence public perceptions and create a legitimacy gap. Their study also establishes that the level of environmental disclosure is associated with the level of print media coverage given to the environmental implications of the industries and the level of negative print media coverage of their environmental impacts.

Bewley and Li (2000) produced comparable results. However, instead of considering the media coverage within industries, as in Brown and Deegan (1998), the media coverage of the environmental consequences of particular companies could be deemed a warning for its particular legitimacy gap and, possibly, be more closely related to the managers' decision to disclose environmental information.

Deegan (2000) looked at whether the degree of media attention given to certain issues associated with BHP's operations eliminates certain disclosure reactions from the company. The underlying principle is that changes in societal concerns, (indicated by changes in terms of print media articles), are emulated by changes in the social and environmental matters disclosed, and by the extent of the disclosure being made. Supportive of legitimacy theory, the results demonstrate that issues that attracted the largest amount of media publicity were those that were associated with the greatest amount of annual report disclosures. These conclusions support O'Donovan's (1999) findings that managers make annual report disclosures in response to media coverage.

Prior research has attributed increased social disclosures of companies to general adverse media attention or unfavourable publicity due to a significant social event. A company that has adverse media publicity because of its socially unacceptable behaviour is considered to have lost its social legitimacy. This is a rational conclusion because media companies themselves face litigation risk and the risk of reputation damage if their publicity is based on false evidence (O'Donovan, 2002; Kent and Monem, 2008). Consequently, adverse media publicity is likely to pressure a company to make specific disclosures to eliminate the impacts of unfavourable information available to the public. Essentially, a company that is perceived to be socially undesirable is likely to appear as though they are confessing to negative social activities present in their company by disclosing an increased amount of employee information in their annual reports. These disclosures aim to create a positive representation of the company that appears to be an appropriate strategy because there has been a global increase in public awareness of the adverse social impacts of business operations (Kent and Monem, 2008).

2.4.2 INTELLECTUAL CAPITAL

The academic and business literature during the past decade has recognised the growing importance of intellectual capital. However, little progress has been made in accounting for intellectual capital in the financial statements of companies (Guthrie and Yongvanich, 2004; IFAC, 1998; Kannan and Aulbur, 2004; Lev, 2001). Academics, standard setting bodies, and the corporate community have proposed that traditional accounting standards are inadequate to account for intellectual capital. Accordingly, reporting on intellectual capital has been predominantly to account for disclosures in the annual reports of companies (Sonnier, 2008).

Guthrie and Petty (2000) conducted a cross-sectional content-analysis study of intellectual capital reporting practices across Australia's 20 largest companies and find that reported intellectual capital was inconsistently reported. Their study concludes that there is no established and mutually agreed framework for reporting intellectual capital by large Australian companies or from the accounting profession. This lack of consistency in reporting frameworks by Australian companies presents a challenge for organisations considering embarking on intellectual capital reporting.

In similar international studies, Bontis (2003a) finds limited reporting of intellectual capital from an analysis of 10,000 annual reports in Canada. Other studies utilising content analysis methods also find corresponding low levels of intellectual capital reporting (Brennan, 2001; April, Bosma and Deglon, 2003; Ordonez de Pablos, 2003) confirming that this is not a phenomenon unique to the Australian reporting environment.

2.5 CHOICE OF THEORIES

A shift has occurred by some researchers to use more than one theory to provide an explanation for particular managerial actions (Fiedler and Deegan, 2002) because of an overlap between a number of theories, and because they provide slightly different and useful insights. It should be noted that a number of theories have been given the broad label of stakeholder theory. As Deegan (2000) explains, there is a "normative branch" of stakeholder theory, and a "managerial branch". The normative branch provides prescriptions in terms of how organisations should treat their stakeholders. This theoretical view emphasises the responsibilities of organisations (Donaldson and Preston, 1995; Freeman and Reed, 1983; Hasnas, 1998).

A considerable amount of overlap exists between the managerial branch of stakeholder theory and legitimacy theory. Gray et al. (1995a; 1995b) state that the different theoretical perspectives, namely legitimacy theory and stakeholder theory, should not be seen as competitors for explaining social disclosure, but as resources to use to interpret the various factors at different levels. Consequently, legitimacy theory and stakeholder theory enhance, rather than compete for, researcher's understanding of corporate social disclosure practices.

As Deegan (2002) reveals, stakeholder and legitimacy theories perceive the company to be part of a broader social system where the company affects, and is influenced by, particular groups in society. Although legitimacy theory reviews the expectations of society, stakeholder theory provides a more sophisticated solution by referring to the power of specific 'stakeholder' groups within society. Fundamentally, stakeholder theory recognises that stakeholder groups have different views about how a company should carry out its operations. Therefore, there is a range of social contracts 'negotiated' with different stakeholder groups, rather than one contract with society in general. Stakeholder theory explicitly refers to issues of how a stakeholder's relative power affects their ability to persuade the company into fulfilling the stakeholder's requirements (Cowan and Gadenne, 2005; Gallhofer and Haslam, 1997; Jamali, 2008). The focus of stakeholder theory is therefore less broad than that of legitimacy theory, since legitimacy theory considers society in general rather than that of specific stakeholders. Nevertheless, and as indicated above, there is a significant level of overlap between the two theories.

Deegan et al. (2002) communicates that stakeholder, legitimacy, and institutional theories should not be considered as three separate theories. Rather, they have been developed from a similar philosophical background and provide complementary and overlapping perspectives. All three theories see the company as part of a broader social structure in which they are impacted by, as well as having the ability to influence the expectations of other stakeholders within a given social environment. Political cost, legitimacy, and stakeholder theories have also been considered as overlapping perspectives on the same issue. These theories differ in terms of their level of refinement in resembling the issue of voluntary disclosures, with political cost being the least refined and stakeholder theory being the most refined (Gray et al., 1995a, b).

Elements of legitimacy theory often address "society", and compliance with the expectations of society. However, this provides inadequate solutions given that society is evidently made up of various stakeholder groups with unequal power or ability to influence the activities of other groups. Stakeholder theory explicitly accepts that different groups have different views about how companies should conduct their operations, and have different abilities to influence a company. Lindblom (1994) discussed the concerns of "relevant publics" that are changing the focus from society towards particular groups and are employing knowledge from stakeholder theory. The insights provided by stakeholder theory assist in identifying what groups are likely to be relevant to particular management decisions and potentially what expectations the company should focus on accomplishing. It is essential to consider the links legitimacy has with other theories, such as stakeholder theory, and the benefits that can accrue from attempting to see a particular event through more than one view of the world (Deegan, 2002).

It is assumed that managers have an ability to modify perceptions of legitimacy, through means of disclosures. In comparison, under institutional theory managers are expected to conform to “norms” that are essentially forced upon them (Campbell, 2007; Cormier, Magnan and Van Velthoven, 2005; Roome and Wijen, 2004). Woodward et al. (1996) show that legitimacy theory and stakeholder theory consider a company to be part of the wider social system, legitimacy theory looks at society as a whole, whereas stakeholder theory recognises that some groups within the society are more powerful than others.

Gray et al. (1995a, 1995b) employ political economy and stakeholder theories in examining the social and environmental disclosures in the UK company annual reports over a period of 13 years. Their analysis indicates that stakeholder, legitimacy, and political economy theories are insightful in corporate social responsibility as they are all concerned with “mediation, modification and transformation” but from different points of view. They do believe, however, that it is possible to make similar interpretations of evidence from different theoretical perspectives. That is, if interpretations from stakeholder and legitimacy theory are made in a neo-pluralist manner, with recognition of the relatively limited explanation these can offer, and these interpretations are enhanced by wider perceptions from classical political economy, one should reach a set of observations which are influential at different levels of resolution (Gray et al., 1995a).

Therefore, it is assumed that the alternative theories that are of value to studies of corporate disclosure policies focus upon distinct perspectives of the same issue. Through the dissimilar assumptions made and standpoints adopted they offer alternative insights into the subject matter. Thus, it is not possible to isolate a particular framework as a paradigm in the academic arena. The different theories should not be seen as competing perspectives but rather as alternative ways of comprehending and studying company's decisions to disclose different forms of information to the public.

The theories outlined in this chapter are chosen based on how they relate to a company's decision to voluntarily disclose employee-related information in their annual report. Stakeholder theory is considered to be a comprehensive theory that can be applied directly to this study. Specifically, Ullmann's theoretical framework is applied to this study of voluntary employee-related disclosures to provide a structure in the development of the hypotheses.

2.6 CHAPTER SUMMARY

Stakeholder theory, and several associated theories act as the theoretical basis of a number of the studies referred to in this thesis. They provide a foundation for understanding how and why managers' use annual reports to benefit an organisation. A shift has occurred by some researchers to use more than one theory to provide an explanation for particular managerial behaviours because of an overlap between a number of these theories, and because they provide different and valuable insights (Deegan, 2002). While these currently applied theories are considered to be in need of further refinement, papers that follow help other researchers to further develop existing theory to explain corporate social reporting practices.

Ullmann's (1985) three-dimensional framework of corporate social responsibility disclosure incorporates the elements of stakeholder power, strategic posture and the past and present economic performance of the company. Ullmann's (1985) framework, which is operationalised in the following chapter, is useful to examine employee power, economic performance and corporate governance best practices in relation to a strategic perspective of employee-related disclosures.

CHAPTER 3

HYPOTHESIS DEVELOPMENT

3.1 INTRODUCTION

Chapter One discusses the research proposal and provides an overview of the developments in corporate social responsibility reporting that encompasses the area of research. It also defines the core concepts of the study and highlights the study's contributions to knowledge.

Chapter Two reviews prior research on corporate social responsibility reporting. It discusses the extent to which the company has social responsibilities beyond profit maximisation and examines various conceptual frameworks that have been applied, including stakeholder theory, legitimacy theory, social contract theory, political economic theory, institutional theory, and media agenda setting theory.

This chapter draws on Ullmann's three-dimensional social disclosure model to develop testable hypotheses to explain the quantity and quality of voluntary employee-related disclosures in companies' annual reports. This chapter also illustrates the operationalisation of the constructs used to test the hypotheses and justify the inclusion of the independent variables.

3.2 LITERATURE REVIEW

Few studies have analysed employee-related disclosures in isolation to other corporate social responsibility disclosures. Islam and Deegan (1998) analyse human resource disclosures as one of the six categories of social information in their study. They find that human resource disclosures account for the highest proportion of total disclosures in Bangladeshi companies across the period of 1987-2005.

Rimmel's (2003) study is concerned with the relationship between information, providers and users of human resources disclosure in advanced annual reporting practices for two Swedish companies. The results indicate that when it comes to specific information like disclosures about human resources, a gap is found between users' disclosure demands and the companies' supply of information. Information users suggest that more detailed voluntary disclosure would be beneficial and that a more structured and standardised non-financial disclosure is preferred because it increases transparency and comparability of corporate social reporting.

Vuontisjarvi (2006) explores the extent to which large Finnish companies have adopted socially responsible reporting practices with a focus on human resource reporting within corporate annual reports. The results find that human resource disclosures lack overall consistency and comparability. Quantitative indicators are disclosed by few companies in the sample, with further concern evident with a lack of attention paid to disclosures relating to equal opportunities, work–life balance and integration of disadvantaged groups.

Welford (2005) reports that there has been an increased emphasis on employee and human resource issues by European companies, but less focus on employee issues by Asian companies. Everaert, Bouten, Van Liedekerke, DeMoor, and Christiaens (2008) identify that Belgian companies overwhelmingly report on employee-related issues or labour practices, as did Vuontisjarvi's (2006) analysis of Finnish companies.

Limited research on employee-related disclosures for Australian companies provides the rationale to investigate the voluntary reporting practices of Australian companies specifically relating to this category of social disclosure. The next section operationalises Ullmann's three-dimensional framework to better understand why Australian companies are disclosing employee-related information in their annual reports, what type of employee-related information they are disclosing and how much they are voluntarily disclosing.

3.3 STAKEHOLDER POWER

The first dimension of Ullmann's model, *stakeholder power*, proposes that a stakeholder's dominance in relation to the company is a factor influencing employee-related disclosure. Hence, employee stakeholder power is specifically examined as a vital key to voluntary employee-related disclosures in Australian corporate annual reports. Stakeholder power is viewed as a function of the stakeholders' degree of control over resources required by the company and how critical these resources are to the continued viability of the company (Ullmann, 1985). Ullmann suggests that if the company believes that its stakeholders are concerned with social (and environmental) issues, the company is more motivated to perform well and disclose their performance. Ullmann (1985) perceives stakeholder power as influencing the amount and quality of social responsibility reported. It is expected that companies with higher employee-related power report more employee-related disclosures than those with lower employee power (Mangos and Lewis, 1995). This leads to the following hypotheses:

H1a: Companies disclose more employee-related information when the company's employees have greater power.

H1b: Companies disclose higher quality employee-related information when the company's employees have greater power.

Existing definitions of power are drawn from the initial belief that power is the likelihood that one party within a social relationship is in a position to carry out their own will despite resistance (Reverte, 2009; Roome and Wijen, 2004; Weber, 1947). Although power appears difficult to define, it is not difficult to recognise. Salancik and Pfeffer (1974) declare that it is the ability of those who hold power to exercise that right to deliver the results they desire. A key issue is to identify the method and sources of power.

Essentially, stakeholders desire something from a company. Some want to influence what the company does (those stakeholders who want to affect) and others are, or potentially could be, concerned with the way they are affected by the company. To test the first hypotheses, the relevant stakeholders must be identified and alternative measures developed to represent the construct of employee stakeholder power.

3.3.1 IDENTIFICATION OF STAKEHOLDERS

Where stakeholders are deemed powerful and legitimate their influence in the company is guaranteed, since by possessing power with legitimacy they form the "dominant coalition" in the company (Cyert and March, 1963). These stakeholders are characterised as "dominant", with respect to the legitimate claims they have upon the company and their ability to act on these claims (Mitchell et al., 1997). Managers deem particular stakeholders to be important based on their perceptions of the power and legitimacy of those stakeholders. Therefore it is likely that dominant stakeholders have some formal mechanism in place that acknowledges the importance of their relationship with the company signifying that employees could be characterised as dominant stakeholders. For example, most companies have a human resources department that acknowledges the importance of the company-employee relationship (Mitchell et al., 1997). Companies also produce reports to legitimise powerful stakeholders (for example, employees, shareholders and creditors), including annual reports, alternative statements, special purpose reports and, increasingly, environmental and social responsibility reports (Debeljak and Gregoric, 2006; Preble, 2010).

In strategic analysis, the Mendelow (1983) framework is frequently used to understand the influence that each stakeholder has over a company's objectives and strategy. This framework seeks to establish which stakeholders have the most influence by estimating each stakeholder's individual power and interest in the company's operation. The stakeholders with the highest combination of power and interest are likely to be those with the most actual influence over objectives of the company. Power is the stakeholder's ability to influence objectives (how much they can), while interest is the stakeholder's willingness (how much they care). Therefore, in scientific terms, it could be said that influence is equal to the stakeholder's power plus their interest in the company (Gago and Antolin, 2004; Mitchell et al., 1997).

Such an approach to the identification of the stakeholders is applied in the current study. It is suggested that the important stakeholders for analysis can be identified by applying two criteria: (a) the proximity between the potential stakeholder and the company, and (b) the nature of the power exercised by the potential stakeholder.

PROXIMITY OF RELATIONSHIP

The potential stakeholders can be divided into two groups using Freeman's (1984) definition of stakeholders. First, the primary stakeholders are those characterised by high interdependence and are the main providers of the company's resources. Without these stakeholders' continuing support the company could not survive (Clarkson, 1995). Examples of primary stakeholders are shareholders, creditors, customers, suppliers, and employees.

Secondary or adversarial stakeholders are those not directly engaged in transactions with the company and are not essential for its survival, but have the capacity to mobilise public opinion in favour of or opposed to the company. These include environmental lobby groups, government regulators, the media, and other special interest groups (Clarkson, 1995).

NATURE OF THE POWER

The main stakeholders for analysis can also be identified by reference to the nature of the power possessed by the potential stakeholders. Freeman (1984) considers that stakeholder power could be classified as voting power, economic power, and political power. Employees can exercise voting power if they participate in employee share ownership schemes, political power if they are involved in trade union memberships, or economic power indirectly through labour power. Shareholders exercise voting power in proportion to their equity stake in the company. Customers, suppliers, and creditors are able to exercise economic power by changing to another company, raising prices and the cost of capital, and/or withholding supply. Regulators and lobby groups exercise political power through imposing legal regulation on companies (Kent and Chan, 2009; Wilmshurst and Frost, 2000).

After considering the proximity of the relationship between the stakeholders and the company, and the nature of the power that such stakeholders possess, it was decided to limit the analysis of stakeholder power to one group of stakeholders - employees. This is due to the thesis being confined to employee-related disclosures and employees are the most crucial non-financial asset to the company. The following section develops measures of employee power to test Hypothesis 1.

EMPLOYEE POWER

Considering that stakeholder power is a function of the stakeholder's degree of control over resources required by the company, and how critical those resources are to the continued viability of the company (Ullmann, 1985), it is more important to meet the demands of employees when they have greater power in the company. Two proxies of employee stakeholder power are adopted. These are the participation in an employee share ownership scheme and trade union membership.

EMPLOYEE SHARE OWNERSHIP SCHEME

The presence of an employee share ownership scheme is the first proxy for employee stakeholder power. Owning shares in the company is an important way of strengthening employees' involvement in the development of the company and of bringing together employees and shareholders' interests. The Australian Employee Ownership Association (AEOA) claims that the aim of an employee share ownership scheme is to encourage general employee participation in share ownership in their employer company and a collective effort towards improved company performance thereby increasing shareholder value (AEOA, 2007). The participation of employees in share ownership schemes is considered an important form of involvement within the company and a means by which employees can exercise voting power. Employee commitment is re-enforced by this participation that leads to increased symmetry between shareholder and employee interests. Share ownership schemes enable employees to participate financially in the affairs of the company (Day and Woodward, 2004).

Employee share ownership schemes are implemented to reduce agency costs because it is assumed that managers act in their own interest, especially when managers have fixed salary levels (Lenne, Mitchell and Ramsay, 2005). Theoretically, becoming a shareholder creates an extra financial interest in the success of the company and results in an employee being a direct decision-maker equal to their level of ownership. It hypothetically gives them a direct say, at the company level, in how that success is defined. Another example is where managers hold shares in the companies they manage. Managers' share ownership reduce agency costs between shareholders and managers by ensuring that managers bear a share of the wealth consequences of their actions (Lenne et al., 2005).

In 2004, research commissioned by the Department of Workplace Relations' Employee Share Ownership Development Unit found that ten per cent of businesses surveyed had some form of employee share ownership (Landau, Mitchell, O'Connell and Ramsay, 2007; Landau and Ramsay, 2007). Only four per cent of businesses surveyed had a broad-based[5] employee share

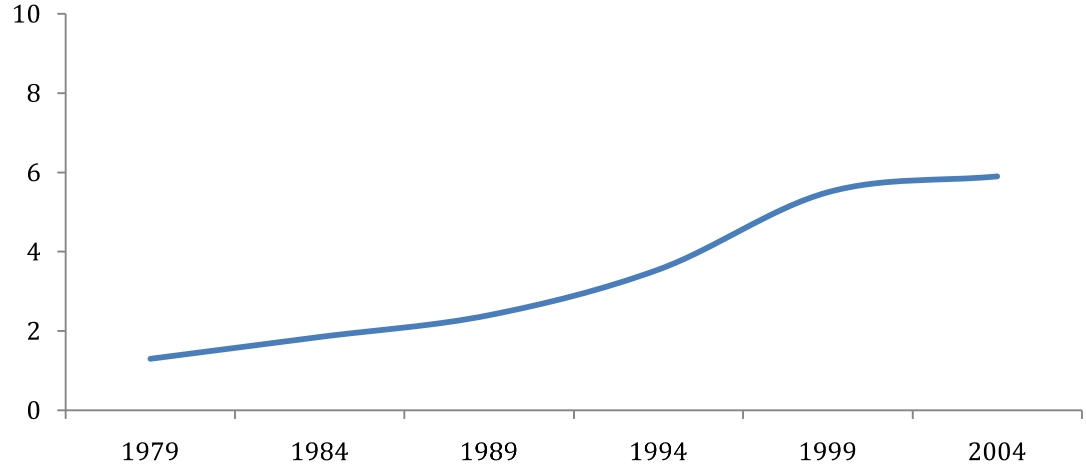
[5] A broad-based employee share option scheme is available to all employees.

ownership scheme, which was open to at least 75 per cent of employees. While only 44 per cent of companies with a plan had a broad-based scheme (meaning there are significantly more executive share plans than broad-based plans operational in Australia) the majority of plans implemented in the period 2003 – 2004 are open to all employees, indicating a move towards broad based schemes. The 2004 ABS data indicates that six per cent of a total 481,300 employees held shares as a form of employment benefit (see Figure 3-1).

Changes to institutions and public policies to protect workers over the last twenty years have radically changed since deregulation of the labour market and globalisation. Employer preferences for flexibility have meant that employees carry the responsibility for career development. Employees are committed to a particular kind of work rather than a particular employer and expect job insecurity. The once long-term relationship between employer and employee has transformed into short-term transactions (Van Buren III and Greenwood, 2008). Hence employees have been encouraged to participate in employee share ownership schemes as a way to build commitment, increase productivity, and maximise profits (Freeman, 2007). Evidence indicates that employee loyalty and willingness to work diligently for the company increases when some form of ownership in the company exists (Bryson and Freeman, 2010). Employee share ownership also gives workers an opportunity to participate in company decision-making (Freeman, 2007) thus giving employees more stakeholder power.

Employees who participate in share ownership schemes have greater power, therefore it is expected that companies with employee share ownership schemes are more likely to disclose employee-related information in the annual report than companies without these schemes.

FIGURE 3-1 PROPORTION OF EMPLOYEES RECEIVING SHARES AS AN EMPLOYMENT BENEFIT



SOURCE: ABS, AUSTRALIAN LABOUR MARKET STATISTICS (CAT. NO 6105.0), JULY 2005.

TRADE UNION MEMBERSHIP

The level of trade union membership in the company's industry is the second proxy adopted for employee stakeholder power. A union negotiates the terms and conditions of employment for many workers in the industrial world. Following the definition of the Australian Bureau of Statistics, a labour union may be defined as "an organisation, consisting predominantly of employees, the principal activities of which include the negotiation of pay and conditions of employment for its members" or, alternatively, as "an organisation which consists wholly or mainly of workers ... and whose principle purposes includes the regulation of relations between workers and employers or employer's associations" (Visser, 2006). A union member is a person who self-defines that they belong to a labour union, employee or staff organisation, or a person who pays his or her dues and is recognised as a member by a union organisation.

Data from the Organisation for Economic Co-operation and Development (2010) shows that unionisation rates for 2007 are approximately 10 per cent for the United States, 20 per cent for countries such as Germany, Australia and the Netherlands, 30 per cent for Canada, the United

Kingdom, and Ireland, and greater than 50 per cent for Norway and Belgium. Furthermore, Denmark, Sweden and Finland have about 70 per cent, or more, of their workers as members of unions (Brown and Warren, 2010; Visser, 2006).

The Global Reporting Initiative (GRI) is a joint initiative of the Coalition of Environmentally Responsible Economies and the United Nations Environment Program. Its aim is to provide a global and credible framework for sustainability reporting that can be used by all organisations (GRI, 2002; 2006). The GRI is guided by the International Labour Organisation and the Organisation for Economic Cooperation and Development which identify trade unions as an important employee stakeholder group. This important stakeholder group should positively relate to corporate employee-related disclosures to enhance transparency and accountability of decent workplace conditions and practices as advised by the GRI (2002).

Employees can elect to participate in memberships with trade unions or labour unions, who represent most of the available work force in a single company. They use their representative power to collectively bargain with management of companies to advance concerns and demands of their membership (Brown and Warren, 2010; Ng and Maki, 1994a; 1994b). This suggests that companies operating in industries with greater trade union memberships are more likely to disclose employee-related information in the annual report than companies without these memberships.

3.4 STRATEGIC POSTURE

The second dimension of the model, *strategic posture*, is incorporated into Ullmann's social disclosure model as an element of strategy. Ullmann (1985) proposes that companies observe different strategies in dealing with stakeholder demands, ranging from an avoidance of demands to partial or total compliance with demands. An active strategic posture is present where a company is continually monitoring its relationship with its key stakeholders and seeks to administer that relationship to attain an optimal level of interdependence with its stakeholders. Developing social responsibility programs and disclosing their existence is also perceived as part of an active stakeholder management strategy. Alternatively, companies adopting a passive strategic posture make no attempt to monitor and manage its relationship with its stakeholders.

Consequently, companies displaying a more active strategic posture to employees are expected to disclose more employee-related information in their annual reports. This leads to the following hypotheses:

H2a: Companies displaying a more active posture towards employee-related issues disclose more employee-related information than companies displaying a less active posture to these issues.

H2b: Companies displaying a more active posture towards employee-related issues disclose higher quality employee-related information than companies displaying a less active posture to these issues.

Kent and Chan (2009) use two proxies for strategic posture: (1) the recognition of social and environmental responsibility in the mission statement, and (2) the presence or absence of social and/or environmental committees. Roberts (1992) also implements two proxies: (1) average size of the company's public affairs staff, and (2) the presence of a corporate sponsored philanthropic foundation.

The following section illustrates two proxies that signify the nature of a company's strategic posture towards voluntary employee-related disclosures. The first is the acknowledgement by the company of employees in the company's mission statement, the second is the companies' corporate governance practices.

3.4.1 MISSION STATEMENT

Corporate mission statements are used to define and communicate the types of relationships a company wishes to establish with each of its major stakeholder groups including employees (Bart, 2001; Campbell, 1997). They are also a key management tool and form the foundation for any major strategic planning initiative (Bart, 1996; Bart, Bontis and Tagger, 2001; Bartkus, Glassman and McAfee, 2000; Campbell, Stonehouse, and Houston, 2002; Khalifa, 2011). They are the basis for setting corporate goals and objectives and drive corporate priorities and intellectual capital development (Bontis, 1998, 1999, 2001, 2003a; McColl-Kennedy, Kiel, Lusch and Lusch, 1992). Mission statements outline the company's climate and culture (Van der Weyer, 1994), defining the fundamental and unique purpose that sets a business apart from other similar companies (David and David, 2003; Pearce and David, 1987).

Mission statements in practice usually have a strategic and a cultural perspective (Bartkus et al., 2000; Campbell, Shrives and Bohmbach-Saager, 2001). These statements of purpose and vision are voluntary and because there is no given method of composition, their content varies depending on the nature of the business, size or industry. Pearce and David (1987) and Stone (1996) suggest that mission statements need to have certain characteristics or qualities if they are to be effective. They need to be unique and easy to understand, contain relevant information appropriate to the company in terms of its history and culture, discuss goals for survival, growth, and profitability, outline the company's philosophy (i.e. values and beliefs), illustrate public image and responsibility to other stakeholders, provide motivation to employees to achieve greater levels of performance, provide an ongoing vision, and be appropriate to the target audience.

Recognition within a company's mission statement of the importance of employees indicates an active posture on the part of that company to supply employee-related disclosures

(Lamberti and Lettieri, 2009). For example, the following is extracted from Australia's largest company, BHP Billiton's, mission statement:

> "...At BHP Billiton our objective is to be the company of choice - creating sustainable value for our shareholders, employees, contractors, suppliers, customers, business partners and host communities. ...We aspire to Zero Harm to people, our host communities and the environment and strive to achieve leading industry practice. Sound principles to govern safety, business conduct, social, environmental and economic activities are integral to the way we do business."

The above statement illustrates the company's commitment to a range of stakeholders and suggests that it has an active posture to these stakeholders. Previous research indicates that the inclusion of references to the environment is associated with improved environmental disclosures (Kent and Chan, 2009). This study focuses on references to employees in the mission statement to estimate an active posture to employees given that the specific disclosures examined are employee-related disclosures.

3.4.2 CORPORATE GOVERNANCE PRACTICES

Another ex ante strategy to manage stakeholders for the voluntary disclosure of employee-related information in annual reports relies upon the foundation of a company's corporate governance practice. Corporate governance is the system by which companies are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the company, such as the board, managers, shareholders and other stakeholders, and reveals the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are established, and the means of attaining those objectives and monitoring performance (Cadbury, 1992).

Australia introduced the Principles of Good Corporate Governance and Best Practice Recommendations (Australian Securities Exchange Corporate Governance Council, 2003) in March 2003. Ten principles were recommended in the first ASX Corporate Governance Council report in 2003[6]. These are: lay solid foundations for management and oversight; structure the board to add value, promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely and balanced disclosure, respect the rights of shareholders, recognise and manage risk, encourage enhanced performance, remunerate fairly and responsibly and recognise the legitimate interests of stakeholders. The principles likely to be associated with the disclosure of employee information are: lay solid foundations for management and oversight, structure the board to add value, promote ethical and responsible decision-making, make balanced disclosure, recognise and manage risk and recognise the legitimate interests of stakeholders (Kent and Monem, 2008). Bebbington et al. (2008) propose that corporate social responsibility reporting is likely to be associated with an element of reputation risk management, and the corporate governance principles clearly identify recommended corporate governance practices as being associated with recognising and managing risk (Kent and Zunker, 2010).

The Organisation for Economic Co-operation and Development (OECD) *Principles of Corporate Governance* were initially released in May 1999 and revised in 2004. They have since become an international benchmark for regulators, investors, companies and other stakeholders on a global scale. They have enhanced the corporate governance framework and provide companies with specific guidelines for legislative and regulatory initiatives. Employees, along with other stakeholders, have been identified as playing an important role in contributing to the long-term success and performance of the company (OECD, 2004).

Section 4 of the *OECD Principles of Corporate Governance* relates to the role of

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[6] The ASX Corporate Governance Council released the first edition of its Principles of Good Corporate Governance Practice and Best Practice Recommendations on 31 March 2003. On 2 August 2007, the Council released the second edition of the Corporate Governance Principles and Recommendations.

stakeholders in corporate governance and states, “The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises” (OECD, 2004, pp. 21). A good corporate governance structure reveals ways to assist various stakeholders of the company to invest optimal levels of investment in firm-specific human and physical capital. The ultimate success of a company is the result of teamwork that represents contributions from a range of different stakeholders including investors, employees, creditors, and suppliers. Companies should recognise that the contributions of employees comprise a valuable resource for building competitive and profitable companies (OECD, 2004).

Section 5 of the *OECD Principles of Corporate Governance* identify the importance of disclosure and transparency as a governance mechanism and encourages companies to provide information on key issues relevant to employees and other stakeholders that may significantly affect the performance of the company. It states that: “The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company” (OECD, 2004, pp. 22, 49). Section A (7) specifically states that “issues regarding employees” should be disclosed (OECD, 2004, pp. 22, 49). Information may include management or employee relations, and relations with other stakeholders such as creditors, suppliers, and other members of society. Human resource policies, such as plans for human resource development and training, retention rates of employees and employee share ownership plans, can communicate important information on the competitive strengths of companies to market participants (OECD, 2004).

Theory suggests that a strong corporate governance structure should lead to “more transparent disclosures” (Beekes and Brown, 2006; Chen and Jaggi, 2000; Kent and Stewart, 2008). Adhering to recommended corporate governance practices implies that companies actively want to be more transparent and accountable to society, including employees (Kent and Monem, 2008). Measures of best practice corporate governance mechanisms including board size and structure, the external auditor, and presence of board committees are used to measure strategic posture (Rainsbury, Bradbury and Cahan, 2008).

Disclosures that are more comprehensive are likely to be more informative, therefore it is anticipated that there is a positive relationship between the level of voluntary employee disclosures and recognised measures of corporate governance (Bassett, Koh and Tutticci, 2007; Kent and Zunker, 2010).

THE BOARD OF DIRECTORS

Researchers have established that the board of directors is the principal control mechanism existing in companies' internal governance structure (Brown, Beekes and Verhoeven, 2010; Fama and Jensen, 1983; Kent and Stewart, 2008). An effective board of directors should monitor social and financial decisions and ensure the accounting alternatives made by management are appropriate and beneficial to the company (New York Stock Exchange, 2002).

The first principle in the ASX Principles of Good Corporate Governance and Best Practice Recommendations (Australian Securities Exchange Corporate Governance Council, 2006) suggests that companies should recognise and disclose the particular roles and responsibilities of board and management. The board of directors is responsible for overseeing the company, including its control and accountability systems and approving and monitoring financial and other reporting (ASX, 2008). These responsibilities are related to the company's decision to voluntarily disclose employee-related information in the annual report. The second principle also relates to the board of directors. It states that companies should "have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties" (ASX, 2008).

It is expected that board size is related to the directors' capability to supervise and control managers (Jensen, 1993). A large amount of research indicates that larger boards are more efficient in executing their responsibilities. Further, the ability of directors to control and promote value-creating activities is more likely to increase with an increased number of directors on the board. With more directors, the collective experience and expertise of the board will increase (Akhtaruddin et al., 2009). Other researchers have found that more directors on boards have a negative impact on strategic planning, internal control mechanisms and financial reporting quality (Beasley, 1996; Jensen, 1993).

Recommendation 2.1 from the ASX principles and recommendations suggests the majority of the board should be made up of independent directors. The ability of the board of directors to operate as an effective monitoring mechanism is reliant upon its independence from management (Beasley, 1996). From an agency perspective, independent directors are expected to provide shareholders superior protection in monitoring management (Baysinger and Butler, 1985). This enhanced monitoring ability can be attributed to the incentive to maintain their reputation in the external labour market (Fama and Jensen, 1983).

Another board characteristic associated with strong corporate governance is the separation of the roles of CEO and board chair. Corporate governance guidelines assume that a board's ability to perform a monitoring role is weakened when the CEO is also the chairperson of the board (ASX, 2003). The appointment of the CEO to the position of chair is expected to lead to a concentration of power (Beasley, 1996) and could result in potential conflicts of interest, limiting the degree of monitoring. Forker (1992) finds that separation of the roles of the CEO and board chair is positively correlated with the level of voluntary disclosure (Barako, Hancock and Izan, 2006; Kent and Stewart, 2008).

Boards of directors are required to be committed to meeting their corporate governance obligation responsibilities. This is particularly important to guarantee a high quality and transparent nature of reporting in annual reports. Boards that meet frequently are more likely to perform their duties thoroughly and effectively (Kent and Stewart, 2008; Lipton and Lorsch, 1992). Diligent boards are more likely to ensure that voluntary social disclosures are made to meet stakeholders' demands for information and protect the reputation of the company (Kent and Monem, 2008).

Therefore, board characteristics associated with improved corporate governance include board size, the proportion of independent directors, separation of the CEO and chairperson, and board meeting frequency.

BOARD COMMITTEES

THE SOCIAL RESPONSIBILITY COMMITTEE

The boards of directors assign responsibilities to other board committees to enable them to perform their duties more efficiently (Davidson, Goodwin-Stewart and Kent, 2005). A company's strategic posture is confirmed by verifying the presence or absence of specific committees, which are established to monitor stakeholder concerns. Companies are encouraged to establish a social responsibility committee for setting corporate policies on sustainable development and for dealing with issues such as health and safety, personnel policies, environmental protection, and codes of business conduct (International Institute for Sustainable Development, 1992). The establishment of a social responsibility committee demonstrates a company's active posture towards these important issues.

While the presence of a social responsibility committee is not identified in the ASX Principles of Good Corporate Governance and Best Practice Recommendations it is a relevant committee likely to assist employee-related disclosures. The existence of a social responsibility committee is likely to be associated with a greater tendency for companies to make voluntary disclosures concerning social involvement including employees (Cowen et al., 1987). This indicates that a company having a social responsibility committee displays an increased level of commitment towards social responsibility issues including employee-related issues.

Cowen et al. (1987) find that the presence of a corporate social responsibility committee is associated with human resource disclosures. This suggests that these disclosures, which include employee safety, health and training, and other employee-related information, are a major concern of social responsibility committees. Therefore, it is expected that the existence of a social responsibility committee is associated with an increased quantity and quality of employee-related disclosures.

THE AUDIT COMMITTEE

The establishment of an audit committee is recommended by ASX Corporate Governance Best Practices. The audit function is considered to be an important governance attribute likely to assist in the voluntary disclosure of employee-related information (Kent and Zunker, 2010). The audit committee is the primary channel, providing shareholders with the greatest protection in maintaining the quality of a company’s financial statements (Davidson et al., 2005; McMullen, 1996). The existence of an independent audit committee is recognised by international reporting bodies as an important feature of good corporate governance (Karamanou and Vafeas, 2005; OECD, 2004).

Most previous research has concentrated on the link between audit committees and financial performance quality (Beekes and Brown 2006, Kent et al. 2010; Kent and Stewart, 2009; Koh et al., 2007), with limited research devoted to individual corporate governance attributes and the level of voluntary social disclosures such as employee-related disclosures.

Many Australian companies require that their audit committee accept responsibility for overall business risk, ethical standards, and broader disclosure issues in addition to financial reporting responsibilities. (Kent and Monem, 2008). Kent and Monem (2008) find that audit committees play a role in assuring high quality financial reporting and improving disclosure of triple bottom line reporting and accountability of the company to society.

The existence of an independent audit committee is recognised by international reporting bodies as an important feature of good corporate governance (OECD, 2004). However, prior studies have not found the level of social disclosure to be significantly associated to the presence of an audit committee (Akhtaruddin, Hossain, Hossain and Yao, 2009; Kent and Stewart, 2008).

Characteristics of audit committees with respect to their existence, the independence, diligence and size are expected to improve the quality of reporting for voluntary disclosures. The ASX Corporate Governance Council recommends that all listed companies should have an audit committee, but ASX Listing Rule 12.7 mandates that only the top 300 listed companies must have an audit committee (ASX, 2008; OECD, 2004).

A brief analysis of this study's sample determined that 65 percent of the companies fall outside the top 300 companies and therefore are not required to have an audit committee. For these companies, the existence of an audit committee indicates a commitment to reliable corporate governance and high quality financial reporting.

THE REMUNERATION COMMITTEE

The remuneration committee is a monitoring mechanism recommended by the ASX Corporate Governance Council (ASX, 2003). The remuneration committee is established to ensure that payment arrangements support the strategic goals of the company and enable the recruitment, motivation and retention of senior executives whilst complying with the requirements of regulatory and governance bodies. Consequently, the company is satisfying the expectations of shareholders and remaining consistent with the expectations of the wider employee population (Main and Johnston, 1992) by having a remuneration committee.

Primarily for larger companies, a remuneration committee can be a more efficient mechanism than the full board for focusing the company on appropriate remuneration policies that are designed to meet the needs of the company and to enhance corporate and individual performance (ASX, 2003). The responsibilities of the remuneration committee include a review of and recommendation to the board on executive remuneration and incentive policies, the remuneration packages of senior management, the company's recruitment, retention and termination policies and procedures for senior management, incentive schemes, superannuation arrangements and the remuneration framework for directors. Much of the information disclosed in the corporate annual report relating to these responsibilities comes under AASB 119 "Employee Benefits" and is considered to be mandatory disclosure. However, many companies disclose information that relate to employee-related remuneration policies outside of the mandated disclosures (ASX, 2003).

THE NOMINATION COMMITTEE

The nomination committee is also a monitoring mechanism recommended by the ASX Corporate Governance Council (ASX, 2003). Nomination committees are perceived as an essential tool of good corporate governance since they determine the quality of appointed directors, which is expected to be associated with improved financial performance (Christensen, Kent and Stewart, 2010). The role of the remuneration committee is to determine and review the nature and amount of all compensation for senior executives of the company. This contributes to relieving the agency problem by proposing, constructing and implementing incentive schemes to better align the goals between management and shareholders (Jensen and Murphy, 1990).

Companies without a nomination committee should have board processes in place which raise the issues that would otherwise be considered by the nomination committee (ASX, 2008).

EXTERNAL AUDITOR

External auditors play a vital role in ensuring their clients comply with accounting standards and other regulations (Lynn, 1996). They are recommended by an independent audit committee of the board or an equivalent body and are appointed either by that committee or by the shareholders' meeting directly (OECD, 2004). Section 5, Part D of the *OECD Principles of Corporate Governance* states that external auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit (OECD, 2004).

Additionally, the International Organization of Securities Commissions' (IOSCO) Principles of Auditor Independence and the Role of Corporate Governance in Monitoring an Auditor's Independence states that "standards of auditor independence should establish a framework of principles, supported by a combination of prohibitions, restrictions, other policies and procedures and disclosures, that addresses at least the following threats to independence: self-interest, self-review, advocacy, familiarity and intimidation" (OECD, 2004, p. 55).

Members of the audit committee and board of directors are likely to be unaware of all reporting requirements given the increasing change and complexity of accounting regulation over recent years. It is the responsibility of the external auditor to ensure that companies have knowledge of new reporting requirements. Larger audit firms, specifically the 'Big Four', usually have a greater number of resources and more expertise to ensure they are familiar with the latest accounting requirements (Kent and Stewart, 2008). It is also assumed that large audit firms have a greater incentive to protect their reputation because of their larger client base (Francis, Maydew and Sparks, 1999). As a result, they are expected to be more conservative and require a greater level of disclosure (Clarkson et al., 2003).

Schipper (1981) and Watts and Zimmerman (1986) offered the view that preference of external auditors is a mechanism that assists in alleviating conflicts of interest between principals and agents. Moreover, DeAngelo (1981) and Chow and Wong-Boren (1986) consider that larger audit firms have incentives to maintain independence from clients' pressure for limited disclosure because of the economic consequences associated with potential damages to their 'brand name' (reputation). Therefore, they encourage their clients to disclose a greater amount of information in the annual report, indicating that the level of voluntary disclosure is likely to be higher for companies audited by Big-4 audit firms. Craswell and Taylor (1992) find a significant positive association between type of auditor (i.e., Big-6 or non-Big-6) and voluntary disclosure of oil and gas reserves by Australian companies, while McNally, Eng, and Hassledine (1982) find no significant association between type of auditor and the extent of discretionary disclosure by New Zealand manufacturing companies.

The signalling literature, which is complementary to agency theory literature (Morris, 1987), suggests that the choice of an external auditor can serve as a signal of firm value. For example, Bar-Yosef and Livnat (1984) show that entrepreneurs are likely to choose a Big-6 audit firm, since such an action signals to investors the expectation of high cash flow. Similarly, Datar, Feltham and Hughes (1991) demonstrate that the selection of an auditor is a signal to the market about the quality of a company's disclosure.

3.5 ECONOMIC PERFORMANCE

A company's *past and current economic performance* is included in the Ullmann model as a third dimension because of its influence on a company's decision to report employee-related information to its stakeholders. The economic performance of the company is an important factor in determining whether employee-related social issues receive the attention of management because substantial additional costs and foregone profit opportunities are associated with being socially responsible. Given certain levels of stakeholder power and strategic posture, companies with better economic performance are more likely to have greater social responsibility activities and disclosures (Roberts, 1992; Ullmann, 1985). In periods of depressed economic performance, the immediate economic objectives of the company receive priority over social reporting (Kent and Chan, 2009; Prado-Lorenzo, Rodrıguez-Domınguez, Gallego-Alvarez and Garcıa -Sánchez, 2009; Roberts, 1992).

Mills and Gardner (1984) discover that companies are more likely to report social responsibility when their financial statements indicate good financial performance. Cowen et al. (1987) does not find support for any relationship between profitability and corporate social disclosures. Belkaoui and Karpik's (1989) results for this relationship are conflicting with Cowen et al.'s (1987) study, reporting a positive and significant pairwise correlation, and a negative non-significant regression coefficient for return on assets and disclosure. While Roberts (1992) finds evidence for a positive relationship between lagged profits and corporate social disclosures, Patten (1991), using multiple measures of profitability including lagged measures, does not find any relationship between profitability and corporate social disclosures.

Al-Tuwaijri, Christensen and Hughes (2004) provide evidence that supports this relationship by undertaking an integrated analysis of the interrelations among environmental disclosure, environmental performance, and economic performance. Based on the rationale that management's overall strategy affects each of these corporate responsibilities, they provide evidence that prior literature's mixed results are attributable to the fact that researchers have not considered these functions to be jointly determined. The authors conclude that economic performance affects environmental performance and that environmental performance affects both economic performance and disclosure.

In spite of these mixed results, it is predicted that companies with higher economic performance disclose more employee-related information and higher quality employee-related information. This leads to the following hypotheses:

H3a: Companies with higher past or current economic performance disclose more employee-related information than companies with lower past or current economic performance.

H3b: Companies with higher past or current economic performance disclose higher quality employee-related information than companies with lower past or current economic performance.

Economic performance can be measured by accounting or market-based constructs (Roberts, 1992). Accounting and market variables look for different aspects of financial performance and each is subject to bias (McGuire, Sundgreen, and Schneeweis, 1988), as explained below.

3.5.1 ACCOUNTING-BASED MEASURES

Accounting-based performance measures are used in the present study as proxies for the past and current economic performance of the company. These measures reflect the historical performance of the company and are considered appropriate measures given the focus of the third dimension of Ullmann's model is relating to the past and current performance of the company. Accounting measures are better predictors of corporate social responsibility than market-based measures because market-based measures are related to systematic movements among all companies, whereas accounting-based measures are more likely to capture unsystematic firm attributes responsible for corporate social disclosures (McGuire et al., 1988b).

The principal disadvantages of using accounting-based measures of performance are that they reflect only the historical performance of the company, are subject to manipulation by management, involve estimates such as provision accounts and different interpretations of reporting standards, and distortions from inflation (Christie and Zimmerman, 1994; Demsetz and Villalonga, 2001: Holthausen, 1990; McGuire et al., 1988).

Measures frequently used in previous studies are return on assets (ROA) and return on equity (ROE) (Moroney, Windsor and Aw, forthcoming). This study applies ROA as a measure of economic performance to examine the existence of a relationship between financial performance and employee-related disclosures. ROA is included in the current study following evidence (Chen, Chen and Cheng, 2008; Clarkson, Overell and Chapple, forthcoming) that companies with superior earnings forecasts are likely to reveal their 'good news'. It is predicted that the past and present financial performance of the company are directly related to employee-related disclosures.

3.5.2 MARKET-BASED MEASURES

Market-based measures represent the investors' perceptions of the future earnings ability of the company rather than past performance. Although short-term stock returns are too volatile for a reliable measure of corporate performance, long-term returns capture corporate performance (Han and Suk, 1998). Market-based measures have the limitation that the information content of disclosure potentially influences the market price of the company and that confounding events make measurement of market based returns unreliable. Market measures are potentially unsuitable to apply to Ullmann's model as the third dimension is based on the past or current economic performance of the company, rather than future performance. However, market-based measures are important in understanding what factors influence employee disclosures and therefore, a market-based measure of performance is also included in the study.

Tobin's Q is a gauge widely used to measure the valuation of listed companies. This ratio measures the relationship between a company's market value and the cost of replacing its assets. Research has shown that corporate social responsibility initiatives are positively related to stock market returns and to Tobin's Q, creating a measure of a company's intangible value (Christensen et al., 2010; Luo and Bhattacharya, 2006).

Following Tobin (1969), a large amount of literature has been built on the foundation of Q-theory (Hubbard, 1998; Lang, Ofek and Stulz, 1996). Morck, Schleifer and Vishny (1988) suggest that Tobin's Q is an appropriate gauge of managerial performance and use this measure to illustrate the relationship between managerial equity ownership and company value. Furthermore, Tobin's Q ratio is important to test the robustness of reported results to the use of an alternate performance measure (Welch, 2003). Tobin's Q primarily represents the community of investors constrained by their insight, brightness, or doubt (Demsetz and Villalonga, 2001).

The market-based measure of Tobin's Q ratio is adopted in the study. Tobin's Q as a measure of company performance is consistent with the efficient market hypothesis argument (Fama 1976) and is a long-term calculation that takes risk and return dimensions into account (Manuel, Carol, Jerry, and Jennigs, 1996), and reflects the company's ability to improve performance over time (Caton, Goh, and Donaldson, 2001). The higher the value of Tobin's Q, the more effective the governance mechanisms, and the better the market's perception of the company's performance is (Weir, Laing and McKnigh, 2002).

3.6 CONTROL VARIABLES

3.6.1 ADVERSE PUBLICITY

A control variable is included in this thesis to assess whether greater amounts and higher quality employee-related information are associated with the amount of bad news published in the print media (Brown and Deegan, 1998). Previous research shows that there is a relationship between adverse publicity and employee-related disclosure (Kent and Zunker, 2010) and triple bottom line reporting (Kent and Monem, 2008). Companies are likely to voluntarily disclose employee-related information in their annual report when a company believes that its social legitimacy has been threatened by employee-related adverse publicity.

Mass communications theory assumes that the mass media act as agents of social control by providing a value frame through which the public conceive and construct their social reality (McQuail, 2000; Yeung, 2002). By revealing irresponsible social conduct in a negative light, adverse publicity sanctions can be expected to lower the company's social standing in the community. There are at least two assumptions pertaining to the mechanisms through which adverse publicity sanctions are considered to operate. First, companies and individuals care about how they are perceived by their peers and the broader community which creates sensitivity to adverse publicity. Second, offending companies believe that their reputations suffer once attention is publicly drawn to their irresponsible activity (Yeung, 2002).

Researchers find that adverse publicity has a direct negative impact on a company's profitability and also exploits the sensitivities of corporate management who value prestige and autonomy as ends in themselves, not merely as means to profits (Islam and Deegan, 2008; Yeung, 2002). Corporate executives are discouraged by adverse publicity because those in highly regarded occupations have more to lose in social standing and respectability by having their reputations reduced. Empirical research provides evidence that companies are sensitive to adverse publicity. For example, a number of studies have sought to explore the impact of the public announcement of events and whether they have a negative impact on a company's reputation for service or quality (see Alexander, 1999; Devine and Halpern, 2001). In these studies, a statistically significant negative impact between adverse publicity and corporate performance is typically observed (Alexander, 1999; Rao, 1996).

Voluntary disclosures are potentially a response to negative media attention or as a result of particular social incidents that threaten the company's legitimacy (Deegan, 2002). Where managers observe that the company's operations do not correspond with the social contract, corrective strategies are required. Legitimacy theory is based on perceptions; therefore any remedial approaches employed by management must be accompanied by disclosure. Remedial action not publicised is not effective in changing society's negative perceptions (Cormier and Gordon, 2001; Deegan, 2002). This approach provided by legitimacy and media-agenda setting theories highlights the strategic importance and power of corporate disclosures, such as those made within the annual reports.

Adverse publicity is an effective deterrent while simultaneously promoting transparency, accountability and a rise in public awareness of regulatory laws and corporate misconduct. Alternatively, adverse publicity constitutes a form of impermissible media experiments which undermines constitutional rights and values (Yeung, 2002).

It is expected that company management decide to voluntarily disclose employee-related information in their annual report when the company believes that its social legitimacy has been threatened by adverse publicity.

3.6.2 SIZE

Company size is the most widely used construct to represent political visibility, and is related to increased disclosures and political costs, agency costs and capital market incentives (Lang and Lundholm, 1993). The size of the company is subject to the view of various political interest groups and is measured a number of ways in the literature. However, company size can substitute for many different factors including management expertise and industry (Ball and Foster, 1982). Profit level, total assets and number of employees could all be considered indicators of company size in the view of employee interest groups to control for political costs.

It is argued that company size is a comprehensive variable that can proxy for several corporate characteristics, such as competitive advantage and information production costs (see Ball and Foster, 1982; Buzby, 1975; Firth, 1979; Leftwich, Watts and Zimmerman, 1981). Given that the process of providing voluntary disclosure is a costly exercise, it is likely that large companies are more able to meet the costs of increased disclosure than smaller companies. In addition, small companies are likely to be reluctant to disclose because it could place them at a competitive disadvantage (Cooke, 1989). As a result small companies are likely to disclose less information than a large company (Firth, 1979).

Another explanation for increased disclosure by large companies is that these companies are expected to be more complex. They are likely to have more employees, be multi-product based and operate in a number of geographical areas, including global operations (Patton and Zalenka, 1997). They also tend to employ a wide variety of highly skilled individuals necessary to introduce more refined management reporting systems that can provide a wider array of corporate information (Buzby, 1972). Further, complexity requires efficient management information systems to meet the needs of managerial control and investors. There are also likely to be greater demands on large companies to provide information for customers, suppliers, and analysts and the public in general. Furthermore, the number of subsidiaries and areas of activity tends to grow with the size of the company; this increases the amount of information to be processed by managers and the likelihood of it being disclosed voluntarily.

Lang and Lundholm (1993) and McKinnon and Dalimunthe (1993) point out that large companies tend to have more analyst followings than small companies, and therefore are subject to greater demand for information. They assert that large companies have incentives to voluntarily disclose more information than smaller companies in order to enhance firm value because non-disclosure could be perceived as bad news by investors. A positive association has been found between company size and the extent of voluntary segment disclosures (Bradbury,

1992) and social responsibility disclosure (Cowen et al., 1987).

Numerous empirical studies in the corporate social responsibility field have indicated company size to be a significant factor in a company's decision to voluntarily make social responsibility disclosures (for example, Belkaoui and Karpik, 1989; Chow and Wong-Boren, 1987; Cooke, 1989; Cowen et al., 1987; Hossain, Perara and Rahman, 1994; Hossain, Tan and Adams, 1995; Jensen and Meckling, 1976; Kelly, 1981; McNally, Eng and Hasseldine, 1982; Meek et al., 1995; Pang, 1982; Patten, 1991, 1992; Raflournier, 1995; Trotman and Bradley, 1981). However, some studies have found no relationship (for example, Davey, 1982; Ng, 1985; Roberts, 1992).

A company that has a larger number of employees considers it to be more important to manage the relationship with employees as a stakeholder group. Gray et al. (1999) employ data over eight years to determine if any assumed relationships exists between the number of employees (as a proxy for size) and the level of disclosure. They refine size measures used in prior research by considering turnover, capital employed and number of employees as size measures. It is believed that the number of employees is correlated to the importance of those employees, together in and as a subject of employment-related disclosure.

Costs imposed by employees on a company increase in proportion to the dependence on employee's resources in the company, indicating higher stakeholder power. This increase in cost is due to a greater dollar amount involved in employee benefits, a greater bargaining strength due to weight of numbers of the employees, and also the nature of government regulations. Employees have contact with the general public through family and friends, and more employees imply greater public awareness of the company's operations (Ben-Ner and Jones, 1995). Additionally, a greater number of events and employee-related issues are likely to be present within the company with increased employee numbers. Thus, management has increased needs to address employee's issues whether they are positive or negative in nature. Consequently, companies with a greater reliance on employee resources have increased motivation to provide disclosure about employees in the annual report than companies with fewer employees.

Companies that employ a large number of staff place a heavy reliance on their employees as valuable resources to maintain and grow the business (Kuasirikun and Sherer, 2004; Rimmel, 2003). As discussed in the intellectual capital literature, human capital is recognised as the most important asset of any company. There are compelling analytical reasons, as well as policy reasons, to care about how boardroom decisions affect employees and how employees can affect corporate governance. The role of employees has mostly been treated as a labour issue and not as a central concern of corporate governance (Blair and Roe, 1999). Employees' role in corporate governance is reflected in their ability to influence corporate decision-making and to control a firm's resources. Indeed, despite the formal legal equality of employers and employees in the labour contract, the substantive asymmetries in power have led to persistent conflicts over legitimate managerial authority (Auguilera and Jackson 2003; Young and Thyil, 2008).

Therefore, the number of employees divided by market capitalisation is a proxy for size in this study and is expected to be positively associated with the amount and quality of corporate employee-related disclosures.

3.6.3 SHAREHOLDER POWER (OWNERSHIP STRUCTURE)

Ownership structure is a major part of the balance of power between managers and owners. Companies are characterised by the separation of ownership from control, which results in an agency relationship (Jensen and Meckling, 1976). Where shares are widely held, the likelihood of conflict of interest between principals and agents are greater than in narrowly held companies. Since the spread of ownership is an indication of control, agency costs are positively related to the level of non-owner management in the company (Jensen and Meckling, 1976). Thus, managers of companies with widely held shareholdings have greater motivation to select accounting policies that mitigate high agency costs (Craswell and Taylor, 1992). One such policy is to voluntarily report additional useful information, as in this case, employee-related information. This allows principals to effectively monitor that their economic interests are optimised, and agents can signal that they are acting in the best interest of the owners (Christopher and Hassan, 1996).

The degree of ownership concentration is applied as a control measure in this study; it addresses the power of the shareholders, who are key providers of the company's scarce resources. Prior studies (Brammer and Pavelin, 2008; Christopher and Hassan, 1996; Craswell and Taylor, 1992; El-Gazzar, 1998; Hill and Jones, 1992; Mckinnon and Dalimunthe, 1993) suggest that the wider the shareholder dispersion, the greater the likelihood that companies disclose more information in the annual report. It is also presumed that companies with widely dispersed ownership are more likely to incorporate good social performance in their strategic planning in order to attract investors (Li, 2008).

The direction of the influence of ownership distribution on the likelihood of the production of employee-related information in the annual report is controversial. One view is that as the distribution of ownership of a company becomes less concentrated, the demands placed on the company by the shareholders become broader (Keim, 1978, cited in Roberts, 1992, p.601; McKinnon and Dalimunthe, 1993; Mitchell, Chia and Loh, 1995; Reverte, 2008; Schadewitz and Blevins, 1998). Accordingly, the prediction is that wider dispersion of ownership leads to higher quality or more employee-related disclosures. This is also supported given that a diffused ownership structure produces an asymmetrical distribution of information (Kent and Chan, 2009; Oliveira, Rodrigues and Craig, 2006).

A more convincing rationale is that a concentrated ownership structure indicates greater shareholder power relative to the company and greater willingness to exercise that power. Shareholders voting power is in direct proportion to shares held by that owner. A concentrated ownership structure indicates key shareholders are more powerful in demanding social disclosures. These key shareholders are also more influential in concealing information they view as being private or detrimental to the company (Cormier and Magnan, 1999; Leuz and Verrecchia, 2000).

These shareholders are also more willing to exercise their powers because the number of shareholders in a concentrated structure is smaller than that found in a diffused structure. This smaller number of shareholders reduces the company's costs involved in mobilising the shareholders to exercise their voting power (Alchian, 1969).

In addition, for a shareholder who wishes to exercise their voting power, the expected benefits of such action are higher in a company with concentrated ownership than in a company with diffused ownership because the smaller number of shareholders in the company reduces the prospect of other shareholders "free-riding" on their efforts (Ramsay and Blair, 1993). Therefore, it is predicted that shareholder power is negatively related to voluntary employee-related disclosures.

3.6.4 CREDITOR POWER (LEVERAGE)

Creditors are important stakeholders whose power should be managed as part of the company's stakeholder strategy (Bruggen, Vergauwen and Dao, 2009; Cornell and Shapiro, 1987). The creditors' stake in a company is to ensure that the company does not undertake risky activities that reduce the company's ability to repay debt (Kent and Chan, 2009; Li and Zhang, 2010).

Creditors, as controllers of access to financial resources, are able to exercise their economic power by increasing the cost of capital or completely withholding debt finance. The power of the creditors in relation to the company can be measured by the degree to which the company is reliant on debt financing for its activities (Roberts, 1992). Roberts (1992) finds that levels of social disclosure are related to stakeholder power, and in particular an overall corporate strategy for managing government stakeholders (measured by political action committee contributions) and meeting creditor expectations (measured by the debt to equity ratio).

Agency costs of debt are higher for companies with proportionally more debt in their capital structures (Meek et al., 1995) since potential wealth transfers from bondholders to shareholders and managers increase with leverage. Therefore, voluntary disclosures are expected to increase with leverage. The restrictive covenants included in debt agreements are intended to reduce management's ability to create wealth transfers between shareholders and bondholders (Belkaoui and Karpik, 1989; Smith and Warner, 1979). Frequently used limitations include limits on financial leverage (long-term debt to assets ratio) and limits on payout rates. The decision to disclose social information follows an outlay for a social performance that reduces earnings. Therefore, highly leveraged companies have incentives to reduce their cost of capital by improving their disclosure levels (Camfferman and Cooke, 2002, Kent and Monem, 2008).

3.6.5 INDUSTRY CLASSIFICATION

The nature of a company's industry is identified as another likely factor associated with voluntary social disclosure practices (Beattie, McInnes and Fearnley, 2004). Dierkes and Preston (1977) argue that companies whose economic activities modify the environment, such as extractive industries, are more likely to disclose information about their environmental impacts than are companies in other industries. "Consumer-oriented" companies can be expected to exhibit greater concern with demonstrating their social responsibility to the community, since this is likely to enhance corporate image and influence revenues (Cowen et al., 1987). In contrast, Patten (1991) maintains industry, similar to company size, influences political visibility and this encourages disclosure to eliminate any unnecessary pressure and criticism from social activists.

Companies with higher levels of industrial volatility are more likely to make deliberate efforts to manage the impressions of important stakeholders than those with lower levels of volatility (Magness, 2006). Different companies face distinctive levels of industrial debate. This means that certain companies have more motivation to provide information that reduces actual (and potential) adverse publicity relating to their employees. The disclosure of positive social responsibility information enhances the image of the company in the view of its political interest groups (Deegan and Gordon, 1993).

A number of empirical studies have found positive relationships between industry classifications and social disclosures (Boesso and Kumar, 2007; Bozzolan, Favotto and Ricceri 2003; Gray et al., 2001). Kelly (1981) finds that primary and secondary industry companies are more likely to disclose a larger quantity of environmental and energy-related information than companies in tertiary industries, whereas a contradictory relationship is found for information relating to community interaction. Cowen et al.'s (1987) US study finds that industry classification influences energy and community involvement disclosures. However, their results indicate that the incidence and quantity of disclosure are not associated with industry classification (Deegan, 2002). In contrast, Patten (1991) and Roberts (1992) find positive relationships between "high-profile" industries and the quantity of corporate social responsibility disclosure. Davey (1982) and Ng (1985) do not establish an association between industry classification, with regards to company size, and social disclosure for New Zealand companies. Nonetheless, industry membership is measured in this study despite conflicting results relating to social disclosures and industry membership.

3.7 CHAPTER SUMMARY

Chapter Three presents and explains the hypotheses that lead to the conceptual framework by linking well-established literature streams (see Table 3-1 and Table 3-2 for a summary). The chapter also develops Ullmann's stakeholder framework as it is adopted in this study. Specifically, the three aspects of Ullmann's stakeholder theory (stakeholder power, strategic posture and economic performance) are operationalised and integrated to form a framework that can accommodate both quantitative and qualitative analysis to explain the quantity and quality of voluntary employee-related information in annual reports.

The subsequent chapter identifies the measurement of the variables used in this study, and develops the methodology that forms the structure of the analysis.

TABLE 3-1 SUMMARY OF HYPOTHESES

Ullmann's Framework		Hypotheses	Quality/ Quantity	Variables to Measure Hypotheses
Stakeholder Power	**1A**	Companies disclose more employee-related information when the company's employees have greater power.	Quantity	(1) Employee Share Ownership (2) Trade Union Membership
	1B	Companies disclose higher quality employee-related information when the company's employees have greater power.	Quality	(1) Employee Share Ownership (2) Trade Union Membership
Strategic Posture	**2A**	Companies displaying a more active posture towards employee issues disclose more employee-related information than companies displaying a less active posture to these issues.	Quantity	(1) Employee Information in the Mission Statement (2) Corporate Governance Score (no. of directors, board independence, duality, no. of board meetings, audit committee, remuneration committee, nomination committee, social committee, auditor)
	2B	Companies displaying a more active posture towards employee issues disclose higher quality employee-related information than companies displaying a less active posture to these issues.	Quality	(1) Employee Information in the Mission Statement (2) Corporate Governance Score (no. of directors, board independence, duality, no. of board meetings, audit committee, remuneration committee, nomination committee, social committee, auditor)
Economic Performance	**3A**	Companies with higher past or current economic performance disclose more employee-related information than companies with lower past or current economic performance.	Quantity	(1) Return on Assets (2) Tobin's Q
	3B	Companies with higher past or current economic performance disclose higher quality employee-related information than companies with lower past or current economic performance.	Quality	(1) Return on Assets (2) Tobin's Q

TABLE 3-2 SUMMARY OF VARIABLES

Model	Dependent Variable	Quantity /Quality	Sample	Corporate Governance Measurement	Independent Variables	Control Variables
Model 1	Presence of employee disclosure *(EMPD)*	Quantity	All companies	Corporate governance index	Employee Share Ownership, Trade Union Membership, Employee Mission Statement, Corporate Governance Score, ROA, Tobin's Q.	Adverse Publicity, Size, Ownership Concentration, Leverage, Energy, Telecom, Utility, Finance, Health, Consumer Discretionary, Information Technology
Model 2	Presence of employee disclosure *(EMPD)*	Quantity	All companies	Individual corporate governance variables	Employee Share Ownership, Trade Union Membership, Employee Mission Statement, No of Directors, Board Independence, Duality, No of Board Meetings, Audit Committee, Remuneration Committee, Nomination Committee, Social Committee, Auditor, ROA, Tobin's Q.	Adverse Publicity, Size, Ownership Concentration, Leverage, Energy, Telecom, Utility, Finance, Health, Consumer Discretionary, Information Technology
Model 3	Number of sentences of employee-related disclosure (*QUANTEMPD)*	Quantity	All companies	Corporate governance index	Employee Share Ownership, Trade Union Membership, Employee Mission Statement, Corporate Governance Score, ROA, Tobin's Q.	Adverse Publicity, Size, Ownership Concentration, Leverage, Energy, Telecom, Utility, Finance, Health, Consumer Discretionary, Information Technology
Model 4	Number of sentences of employee-related disclosure *(QUANTEMPD)*	Quantity	All companies	Individual corporate governance variables	Employee Share Ownership, Trade Union Membership, Employee Mission Statement, No of Directors, Board Independence, Duality, No of Board Meetings, Audit Committee, Remuneration Committee, Nomination Committee, Social Committee, Auditor, ROA, Tobin's Q.	Adverse Publicity, Size, Ownership Concentration, Leverage, Energy, Telecom, Utility, Finance, Health, Consumer Discretionary, Information Technology
Model 5	Number of sentences of employee-related disclosure *(QUANTEMPD)*	Quantity	Disclosing only companies	Corporate governance index	Employee Share Ownership, Trade Union Membership, Employee Mission Statement, Corporate Governance Score, ROA, Tobin's Q.	Adverse Publicity, Size, Ownership Concentration, Leverage, Energy, Telecom, Utility, Finance, Health, Consumer Discretionary, Information Technology
Model 6	Number of sentences of employee-related disclosure *(QUANTEMPD)*	Quantity	Disclosing only companies	Individual corporate governance variables	Employee Share Ownership, Trade Union Membership, Employee Mission Statement, No of Directors, Board Independence, Duality, No of Board Meetings, Audit Committee, Remuneration Committee, Nomination Committee, Social Committee, Auditor, ROA, Tobin's Q.	Adverse Publicity, Size, Ownership Concentration, Leverage, Energy, Telecom, Utility, Finance, Health, Consumer Discretionary, Information Technology
Model 7	Number of employee categories disclosed *(QUALEMPD)*	Quality	All companies	Corporate governance index	Employee Share Ownership, Trade Union Membership, Employee Mission Statement, Corporate Governance Score, ROA, Tobin's Q.	Adverse Publicity, Size, Ownership Concentration, Leverage, Energy, Telecom, Utility, Finance, Health, Consumer Discretionary, Information Technology
Model 8	Number of employee categories disclosed *(QUALEMPD)*	Quality	All companies	Individual corporate governance variables	Employee Share Ownership, Trade Union Membership, Employee Mission Statement, No of Directors, Board Independence, Duality, No of Board Meetings, Audit Committee, Remuneration Committee, Nomination Committee, Social Committee, Auditor, ROA, Tobin's Q.	Adverse Publicity, Size, Ownership Concentration, Leverage, Energy, Telecom, Utility, Finance, Health, Consumer Discretionary, Information Technology
Model 9	Number of employee categories disclosed *(QUALEMPD)*	Quality	Disclosing only companies	Corporate governance index	Employee Share Ownership, Trade Union Membership, Employee Mission Statement, Corporate Governance Score, ROA, Tobin's Q.	Adverse Publicity, Size, Ownership Concentration, Leverage, Energy, Telecom, Utility, Finance, Health, Consumer Discretionary, Information Technology
Model 10	Number of employee categories disclosed *(QUALEMPD)*	Quality	Disclosing only companies	Individual corporate governance variables	Employee Share Ownership, Trade Union Membership, Employee Mission Statement, No of Directors, Board Independence, Duality, No of Board Meetings, Audit Committee, Remuneration Committee, Nomination Committee, Social Committee, Auditor, ROA, Tobin's Q.	Adverse Publicity, Size, Ownership Concentration, Leverage, Energy, Telecom, Utility, Finance, Health, Consumer Discretionary, Information Technology

CHAPTER 4

RESEARCH METHOD

4.1 INTRODUCTION

This chapter outlines the research methodology that serves to investigate the quantity and quality of employee-related disclosures in corporate annual reports. Furthermore, Chapter Four provides an overview of the research design, describes the sample period, sample selection and data collection procedures employed in the research method. The measurement of the variables used to test the hypotheses are illustrated and the statistical techniques to be undertaken in the research are examined.

4.2 SAMPLE SELECTION

The study employs a complete sample of listed companies on the Australian Securities Exchange (ASX) in 2004. The study was confined to companies with a 30th June 2004 balance date, which reduced the sample size from 1527[7] to 1046 companies. This is done to ensure internal validity, cross-sectional generalisability, and sufficient statistical sample size of the study. From this sample, companies with zero employees for the year 2004 (for example, trusts or companies that use the services of contractors) are excluded from the sample, as they are not relevant to the current study on employee-related disclosures. Therefore, the final sample consists of 970 companies, all employing at least one employee.

An important measure of strategic posture is the application of corporate governance practices. The year 2004 was chosen because it is the first year of implementation of the ASX Principles of Good Corporate Governance and Best Practice Recommendations in company's

[7] Number of companies listed on the ASX as at 30th June 2004 (ASX, 2010).

annual reports. Therefore, it is the first time publicly listed companies are required to supply information on their corporate governance practices and if they are not implementing certain practices, they must disclose reasons for non-disclosure. The change in reporting requirements applies to the company's first financial year commencing after 1st January 2003. Accordingly, where a company's financial year begins on 1st July, disclosure is required in relation to the financial year 1st July 2003 to 30th June 2004 and is made in the annual report published in 2004 (Australian Securities Exchange Corporate Governance Council, 2006).

4.3 DATA COLLECTION

Content analysis is applied in this study to measure voluntary employee-related disclosures present in the 2004 annual reports and negative media attention in mainstream print. Content analysis has been implemented on annual reports by a number of researchers within the corporate social responsibility field (for example, Abbott and Monsen, 1979; Abeysekera and Guthrie, 2005; Aerts and Cormier, 2009; Aribi and Gao, 2010; Ax and Marton, 2009; Bontis, 2003; Bozzolan et al., 2003; Brennan, 2001; Gray et al., 1995; Guthrie et al., 2004; Guthrie and Petty, 2000; Milne and Adler, 1999; Roslender and Fincham, 2004; Tilling and Tilt, 2010; Vuontisjarvi, 2006; Whiting and Millar, 2008; Yongvanich and Guthrie, 2007) to evaluate the extent of the disclosure (Ernst and Ernst, 1978; Guthrie and Mathews, 1985; Guthrie and Parker, 1990; Hackston and Milne, 1996; Zeghal and Ahmed, 1990). In this study, content analysis is deemed to be an appropriate research method for the examination of the quantity and quality of disclosure regarding information about employees.

Krippendorff (1980, p. 21) defines content analysis as "a research technique for making replicable and valid inferences from data to their context". The success of the process depends on the reliability and validity of the procedures employed (Deegan et al., 2002).

4.4 MEASUREMENT OF THE DEPENDENT VARIABLES

4.4.1 PRESENCE OF DISCLOSURE

The first, third and fifth hypotheses (1A, 2A and 3A) relate to the amount of disclosure associated with employee-related information. One way of looking at the level of disclosure is to see if companies have any employee-related disclosure present.

Therefore, the first dependent variable measure relates to whether or not a company discloses employee-related information in their annual report (denoted as $EMPD_i$). It is measured as a dichotomous variable taking a value of one for a company disclosing information relating to their employees in the 2004 annual report, and zero otherwise. This information is extracted from each of the company's annual reports in 2004.

The researcher identified the information provided in the annual report that is considered to be employee-related information and two independent external research assistants verified this following the same criteria. Specifically, the annual reports of the sampled companies were read and passages of text broadly termed as "*employee-related disclosures*" were identified and highlighted by each of the three independent researchers[8]. From this general group of employee-related disclosures, the researchers were required to distinguish between mandatory and voluntary employee-related information. Only voluntary disclosures are examined in this study.

4.4.2 AMOUNT OF DISCLOSURE

The second dependent variable examines the quantity or number of sentences of voluntary employee-related disclosures in companies' annual reports ($QUANTEMPD_i$). Following the above process, individual sentences were identified as amounting to employee-related disclosures

[8] See Appendix 5 for examples of employee-related disclosures in annual reports.

and were counted to compose the company's quantity of disclosure score. A set of decision rules was employed to reduce the subjectivity involved in the process of identifying sentences that include employee-related information. This process was used for all of the independent variables. Any differences were discussed and a resolution made. Employing three independent researchers to collect the data using the same criteria is a way to achieve consistency and reliability of data (see Chapter 6).

An analysis of other social and environmental content analyses reveals that sentences form the basis for most coding decisions. In content analysis, several alternatives have been proposed to measure the amount of social and environmental reporting (Unerman, 1999). Some studies (Garcia-Ayuso and Larrinaga, 2001) have used classification schemes to provide a number of disclosures (that is, the themes expressed in the analysed text). However, Gray et al. (1995b) suggest that the amount of disclosures (number of words, sentences or pages) provides a richer data set and automatically encompasses the number of disclosures (Bozzolan et al., 2003; Cowen et al., 1987; Guthrie and Mathews, 1985; Guthrie et al., 2006).

In this study, quantity is measured by the number of sentences of employee-related information disclosed in the 2004 annual reports. As natural units of written English that clearly exist between two punctuation marks, sentences are also likely to provide more reliable measures of interrater coding than words (Hackson and Milne, 1996; Yongvanich and Guthrie, 2007). The models testing hypotheses 1A, 2A and 3A apply this as the measurement for the amount of space allocated to voluntary employee-related information.

4.4.3 QUALITY OF DISCLOSURE

The quality of voluntary employee-related disclosures in annual reports ($QUALEMPD_i$) is measured using a disclosure index consisting of nine employee-related categories conceptually developed from the GRI 2 (2002[9]) reporting standard for "Labor Practices and Decent Work Performance" (see Appendix 2 and 4), and in conjunction with the Horwath Corporate Governance Report (2004).

Adhering to Ullmann's (1985) theoretical framework for social disclosure, the quality of voluntary employee-related disclosures should be associated with employee stakeholder power, corporate strategic posture manifested in the mission statement, corporate governance best practice and superior economic performance.

The Global Reporting Initiative (GRI) unveils Sustainability Reporting Guidelines[10], which consist of principles for defining report content and ensuring the quality of reported information. The reporting principles of materiality, stakeholder inclusiveness, sustainability context, and completeness, along with a brief set of tests are provided for each principle to determine what companies should report. Application of these principles, with the standard disclosures determines the categories and indicators to be reported by companies. Supplementary principles of balance, comparability, accuracy, timeliness, reliability, clarity, and the other set of tests are used to achieve the appropriate quality of the reported information (Global Reporting Index, 2006).

All organisations (private, public, or non-profit) are encouraged to report applying the Global Reporting Initiative Guidelines whether they are beginners or experienced reporters, and regardless of their size, sector, or location. Reporting can take various forms including web or print, stand-alone, or combinations with annual or financial reports. The first step is to determine report content. Some organisations choose to introduce reporting using the full GRI Reporting Framework from the outset, while others prefer to begin with the most feasible and practical topics first and phase in reporting on other topics over time. All reporting organisations should

[9] 2004 reports would have referred to the GRI 2 (2002).
[10] See Appendix 2 for a breakdown of the GRI Sustainability Reporting Guidelines for Labor Practices & Decent Work Performance Indicators.

describe the scope of their reporting and are encouraged to indicate their plans for expanding their reporting over time (GRI, 2006).

Several studies in the accounting literature have used indexes based on content analysis to capture the quality of social or environmental reporting (see Clarkson, Li, Richardson and Vasvari, 2008; Clarkson et al., forthcoming; Freedman and Jaggi, 2004; Marston and Shrives, 1991; Moroney et al., forthcoming; Prado-Lorenzo et al., 2009; Stanny and Ely, 2008; White, Lee, Yuningsih, Nielsen and Bukh, 2010).

A disclosure index consists of various items of information that can be disclosed in the company's annual report. The annual report is examined to determine whether a particular index item is disclosed, and the index spreadsheet is completed accordingly. If each category is assigned a score of zero or one (with no weights attached) indicating the absence or presence of an index item, the resulting score for a company varies between zero and the number of index items. The validity of an index as a measure of the quality of employee-related disclosure is dependent upon the selection of the items to be included in the index. Cheung, Jiang and Tan (2010) developed a "Transparency Index" to measure the quality of disclosure of corporate governance practices of Chinese listed companies. Their transparency index is based on the five OECD Principles of Corporate Governance (OECD, 2004).

Content analysis is employed in this study to measure the quality of employee-related disclosures. A set of coding rules was developed to guide the measurement of quality of employee-related disclosures. The resulting score for a company varies between zero and the number of employee-related categories disclosed.

The GRI 2 "Labor Practices and Decent Work Performance" standard comprises a total of 14 categories relating to employment, labour/management relations, occupational health and safety, training and education, and diversity and equal opportunity (see Table 4-1). Three independent researchers coded the disclosures according to these 14 categories for a random sample of 30 companies to determine the suitability of the index.

TABLE 4-1 GLOBAL REPORTING INDEX (2002)

Labor Practices and Decent Work Performance Indicators		
Employment	**LA1**	Total workforce by employment type, employment contract, and region.
	LA2	Total number and rate of employee turnover by age group, gender, and region.
	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.
Labour/ Management Relations	**LA4**	Percentage of employees covered by collective bargaining agreements.
	LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.
Occupational Health and Safety	**LA6**	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.
	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region.
	LA8	Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.
	LA9	Health and safety topics covered in formal agreements with trade unions.
Training and Education	**LA10**	Average hours of training per year per employee-by-employee category.
	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.
	LA12	Percentage of employees receiving regular performance and career development reviews.
Diversity and Equal Opportunity	**LA13**	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.
	LA14	Ratio of basic salary of men to women by employee category.

After careful consideration, and following reference to numerous studies that have analysed employee-related information (see Appendix 3), nine categories were chosen that capture the various types of information disclosed about the employees in the 2004 annual reports for Australian companies (see Table 4-2). The reason for choosing to modify the 14 GRI 2 categories into nine employee-related categories is because there are a number of GRI categories not present in any of the annual reports analysed (for example, LA5, LA10, LA12, LA14) and some disclosures that do not fit into the GRI categories.

TABLE 4-2 EMPLOYEE-RELATED CATEGORIES

Employee categories applied in this study		Global Reporting Index (2002)
1	Employee profiles	LA1, LA2, LA12
2	Employee assistance or benefits	LA3
3	Industrial relations	LA4, LA5, LA9
4	Health and safety	LA6, LA7, LA8, LA9
5	Employee training and development	LA8, LA10, LA11, LA12
6	Employee remuneration	LA12
7	Employment of minorities or women	LA13, LA14
8	Employee morale	n/a
9	Other	n/a

The index is calculated by adding together the categories referred to by companies in their annual reports. Each company obtains a maximum score of one for each category of employee-related disclosure regardless of how many times that category is mentioned in their annual reports. Scores range from one to nine, with a maximum value of nine (companies disclose information relating to all nine categories) indicating that these companies have high-quality employee-related disclosures. Companies with a minimum value of zero (possess none of the nine attributes) are deemed to have low quality employee-related disclosures. Therefore, companies with better quality employee-related disclosure practices have higher scores.

4.5 MEASUREMENT OF THE INDEPENDENT VARIABLES

4.5.1 EMPLOYEE POWER

Two proxies of employee stakeholder power are adopted. These are participation in an employee share ownership scheme and trade union membership.

EMPLOYEE SHARE OWNERSHIP SCHEME

All employee share ownership plans must be fully expensed and disclosed, and justified to shareholders in accordance with the Corporations Act (2001) and the Australian Equivalents to International Reporting Standards. The revised standard AASB 1028 *'Employee Benefits'* requires detailed disclosure of equity-based compensation schemes effective for financial years beginning on or after 1 July 2002 (Kent and Molesworth, 2006). This standard is relevant for the 2004 sample applied in this study. These disclosure requirements include details of employee share ownership schemes such as the number of outstanding shares at the beginning and end of a reporting period, voting and dividend rights attached to options, and vesting/exercise/expiry dates of the options. Similarly, for options exercised during the reporting period, companies are required to disclose the number of options exercised, grant/exercise/expiry dates of the options exercised, exercise prices, proceeds from exercise, number of shares issued, and their fair values. These changes represent a substantial increase in disclosure requirements from previous years. Currently, AASB 2 *'Share Based Payments'* sets out the accounting and disclosure requirements for employee share ownership, and was effective from 1 January 2005 (AASB, 2010).

Employee share ownership is an independent variable that measures the presence of an employee share ownership scheme in the sample of companies as a proxy for employee stakeholder power. Reported information noting the presence of an employee share ownership scheme in the 2004 annual reports is included in this study. This variable is measured as a dichotomous variable, taking a value of one for a company with an employee share ownership scheme in 2004, and zero otherwise. A positive relationship is expected between the presence of an employee share ownership scheme and employee-related disclosures. Data for employee share ownership scheme participation by industry was also collected from the Australian Bureau of Statistics (ABS, 2004) and could be applied as a continuous variable to measure employee power, however, it is a very broad measure, and is not as relevant as collecting information for each individual company.

TRADE UNION MEMBERSHIP

The presence of trade union membership is the second proxy for employee stakeholder power. This variable is extracted from the "Employee Earnings, Benefits and Trade Union Membership" survey conducted throughout Australia in August 2004 as a supplement to the Australian Bureau of Statistics monthly Labour Force Survey (LFS) (ABS, 2010).

The survey provides statistics on the distribution of weekly earnings of employees, their entitlement to paid leave (holiday, sick, long service and maternity/paternity), superannuation coverage and trade union membership. This information can be cross classified by a range of personal characteristics such as age, sex and family type, and by characteristics of employment such as full-time or part-time status, industry and occupation (ABS, 2004).

The trade union variable is measured as a dichotomous variable taking a value of one for a company in a highly unionised industry in 2004, and zero otherwise. It is derived from the statistics on trade union membership, classified by industry[11]. These industries were reclassified using the GICS industry classification, also used as the industry control variable in this study. The classification of either a highly unionised industry or poorly unionised industry is determined by the percentage of total employee union memberships by industry category (see Appendix 7). The average of 22.7 per cent is used as the cut-off point, meaning that companies in industries with more than 22.7 per cent of their workers as members of trade unions are considered to be "highly unionised" companies, and companies in industries with less than 22.7 per cent of their workers as members of trade unions are considered to be "poorly unionised" companies. A

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[11] The Australian and New Zealand Standard Industrial Classification (ANZSIC) was released in 1993. It was produced jointly by the Australian Bureau of Statistics and Statistics New Zealand and is presently used in both countries for the production and analysis of official industry statistics. It is also widely used in administrative systems and other statistical databases.

positive relationship with the dependent variables is anticipated.

4.5.2 STRATEGIC POSTURE

Recall that this study identifies two proxies that indicate the nature of a company's strategic posture toward employee-related disclosures. The first measure is the acknowledgement of employees in the company's mission statement, and the second is the measurement of the company's corporate governance practices.

MISSION STATEMENT

Whilst some companies disclose their mission statement in their annual reports, some do not. Consequently, a company's mission statement is counted if it is present in either their annual report or on the company's website. It is expected that companies that acknowledge their employees in their mission statement make more employee-related disclosures in their annual report, because they deem their employees to be important.

The employee mission statement variable is coded as one if the corporate mission statement refers to the employees of the company, and zero where the mission statement does not acknowledge the employees or where no mission statement is included in the company's 2004 annual report or on their website.[12] A positive relationship is expected.

CORPORATE GOVERNANCE PRACTICES

This study applies corporate governance practices as an additional measure of strategic posture. Numerous Australian studies have used a combined measure of corporate governance to examine the relationship between corporate governance and voluntary disclosure (for example,

[12] See Appendix 6 for examples of company's mission statements that acknowledge the employees.

Clarkson, Ferguson and Hall 2003; Collett and Hrasky, 2005). O'Sullivan, Percy and Stewart (2006) confirmed a correlation existed between a composite corporate governance factor and the disclosure of prospective information in company annual reports in 2000 but not in 2002 (O'Sullivan et al., 2006). Defond, Hung and Trezevant (2005) use a dichotomous variable for strong versus weak corporate governance structures defined by six characteristics examining whether the market values financial expertise on audit committees. Gompers, Ishii and Metrick (2003) use 24 governance rules to construct a "Governance Index" to proxy for the level of shareholder rights in approximately 1500 large companies during the 1990s.

Several studies have investigated just one or two corporate governance mechanisms (see Akhtaruddin et al., 2009; Cooper and Owen, 2007; Cormier, Aerts, Ledoux and Magnan, 2009; Ho and Wong, 2001; Sikka, 2008). However, a company's corporate governance score reflects an assessment of the company's corporate governance practices and policies and the extent to which these serve the interests of the company's financial stakeholders, with an emphasis on shareholders' interests. Corporate governance scores allow the comparison of individual companies within a national context as well as comparisons of companies in different jurisdictions (Standard and Poor's Governance Services, 2002). Given that stronger overall corporate governance should lead to improved reporting transparency, it is expected that a stronger governance system (reflected in a higher corporate governance score) is associated with increased disclosure of employee-related information in annual reports.

The system being implemented in this study is based on separate governance recommended best practice attributes (ASX, 2008) and one incorporated in the Horwath Corporate Governance Report (2004). The Horwath Corporate Governance Report (2004) annually rates Australia's largest 250 companies, and more recently mid-cap listed companies, on their corporate governance structures and policies, and assigns them a score (Christensen et al., 2010). The corporate governance assessment model developed in the Horwath research is based upon a combination of factors identified in national and international best practice guidelines and research studies. These include the USA Blue Ribbon Committee Report (1999), the UK Hampel Report (1999), the OECD Report (2001), the UK Higgs Report (2003), the Australian Ramsay Report (2001), Investment and Financial Services Association of Australia Corporate Governance Guide (2003) and the ASX Corporate Governance Council Principles and Recommendations (2007).

For purposes of the corporate governance score, corporate governance encompasses the interactions between a company's management and its board of directors, shareholders, and other financial stakeholders. The Horwath Corporate Governance Report (2004) model considers objective factors based on publicly disclosed information pertaining to the existence and structure of a company's board of directors and associated committees (audit, remuneration and nomination), external auditor independence, disclosures relating to the existence of a code of conduct, risk management, and share trading policy. Finally, the model also considers the clarity of the corporate governance disclosures. The major factors in the model are applied in this study and described below. Non-audit services are replaced by the presence of a social responsibility committee, and the existence of a code of conduct, risk management and share trading policy are excluded completely.

Nine individual corporate governance variables are analysed in this study and are summed to produce a combined corporate governance score ($CORPGOV_i$). Those relevant in this study are the presence of a social responsibility committee, size of the board of directors, board independence, duality of the role of board chair and chief executive officer, number of board meetings, identity of external auditor, presence of an audit committee, presence of a remuneration committee, and/or presence of a nomination committee.

The corporate governance score is constructed by transforming each of the corporate governance characteristics into dichotomous variables (see Table 4-3). Each company is assigned a score of one if they possess that specific attribute, and a score of zero if they do not (see Table 4-4 for examples). The size of the board of directors and the number of board meetings are the only measures that are continuous variables. Therefore, a board with more than five directors is coded one (signifying a larger board), and a board with less than five directors is coded zero (signifying a smaller board). The cut-off point of five directors is chosen because it is the mean average number of directors on the boards of companies in the sample. A company that holds more than ten meetings throughout 2004 is assigned a score of one, with companies holding ten meetings or less during 2004 coded zero. The cut-off point of ten meetings is chosen because it is the mean average number of meetings in 2004 for the board of directors of companies in the sample.

Each of the dichotomous variables is summed to produce an overall score measuring the effectiveness of each company's corporate governance structure. Companies with a maximum value of nine (possess all nine attributes) indicate they have strong corporate governance practices, whereas companies with a minimum value of zero (possess none of the nine attributes) indicate a weak corporate governance structure.

TABLE 4-3 VARIABLES FOR THE CORPORATE GOVERNANCE SCORE

	Corporate Governance Characteristic	**Details**	**Score**	**Details**	**Score**
1	Social responsibility committee	Yes	1	No	0
2	Size of the board of directors	>5	1	=<5	0
3	Majority of board independent	>0.50	1	=<0.50	0
4	Duality of the role of board chair and chief executive officer	Yes	1	No	0
5	Number of board meetings	>10	1	=<10	0
6	Identity of external auditor	Big 4	1	Non-Big 4	0
7	Presence of an audit committee	Yes	1	No	0
8	Presence of a remuneration committee	Yes	1	No	0
9	Presence of a nomination committee	Yes	1	No	0

TABLE 4-4 EXAMPLES OF THE CORPORATE GOVERNANCE SCORE CALCULATION

Company	Corporate Governance Characteristic	Details	Score
Macquarie Bank	Social responsibility committee	Yes	1
	Size of the board of directors	11 (>5)	1
	Majority of board independent	Yes (0.64)	1
	Duality of the role of board chair and chief executive officer	No	0
	Number of board meetings	12 (>11)	1
	Identity of external auditor	Big 4	1
	Presence of an audit committee	Yes	1
	Presence of a remuneration committee	Yes	1
	Presence of a nomination committee	Yes	1
		TOTAL Corporate Governance Score	8

Company	Corporate Governance Characteristic	Details	Score
Woolworths	Social responsibility committee	Yes	1
	Size of the board of directors	7 (>5)	1
	Majority of board independent	Yes (0.86)	1
	Duality of the role of board chair and chief executive officer	Yes	0
	Number of board meetings	10 (<11)	0
	Identity of external auditor	Big 4	1
	Presence of an audit committee	Yes	1
	Presence of a remuneration committee	No	0
	Presence of a nomination committee	No	0
		TOTAL Corporate Governance Score	5

Company	Corporate Governance Characteristic	Details	Score
Lion Energy	Social responsibility committee	No	0
	Size of the board of directors	3 (<5)	0
	Majority of board independent	No (0.33)	0
	Duality of the role of board chair and chief executive officer	Yes	0
	Number of board meetings	4 (<11)	0
	Identity of external auditor	Non-Big 4	0
	Presence of an audit committee	No	0
	Presence of a remuneration committee	No	0
	Presence of a nomination committee	No	0
		TOTAL Corporate Governance Score	0

The study also analyses corporate governance attributes individually to allow for the identification of the individual governance measures that have either an effective or ineffective influence on employee-related disclosures.

The following section explains how each of the corporate governance characteristics are measured as alternative individual corporate governance variables.

THE SOCIAL RESPONSIBILITY COMMITTEE

A social responsibility committee is the board committee that oversees social responsibility issues and is an indication of the high priority placed upon these issues by the company (Cowen et al., 1987; Gray et al., 1995a; International Institute for Sustainable Development, 1992). The presence or absence of these committees is ascertained through the annual reports of the companies in the sample. The variable social committee ($SOCCOM_i$) is a dichotomous measure and is coded one for companies with an established social responsibility committee as part of their company structure in 2004, and zero otherwise. It is expected to be positively associated to the dependent variables.

THE BOARD OF DIRECTORS

Board size is the number of directors on the board, while board diligence is measured as the number of board meetings per year (Kent and Monem, 2008). Board independence is measured as the majority of independent non-executive directors to total directors, with a majority of independent directors coded one, and zero otherwise. A positive relationship is predicted for these variables.

Duality is coded using a dichotomous variable taking the value of one if the roles of the chairperson and CEO are separated, and zero otherwise. A negative relationship is anticipated.

EXTERNAL AUDITOR

A dummy variable is used to test the external audit hypothesis, with a value of one assigned when the company uses a Big Four auditor, and zero otherwise. It is expected that a company employing a Big Four auditor makes more disclosures relating to the company's employees and that information is of a higher quality than those companies that use non Big Four auditors.

The Audit Committee

The existence of an audit committee is identified by a dichotomous variable and is coded one if the company has an audit committee operating during the year, and zero otherwise. A positive relationship is expected.

The Remuneration Committee

The existence of a remuneration committee is identified by a dichotomous variable with a value of one if the company has a remuneration committee operating during the year 2004, and zero otherwise. A positive relationship is predicted.

The Nomination Committee

The existence of a nomination committee is coded using a dichotomous variable with a value of one if the company has a nomination committee operating during the year 2004, and zero otherwise. A positive relationship is anticipated.

4.5.3 Economic Performance

Recall that economic performance is measured using an accounting-based measure and a market-based measure. Ullmann's stakeholder framework requires either past or present measures of economic performance so both are measured in this study.

RETURN ON ASSETS

Return on assets (ROA_i) is calculated by net profit after tax divided by total assets and is used as the first proxy of economic performance in this analysis. The figures to calculate present *ROA* are obtained from the company's 2004 financial statements. Past *ROA* is calculated using the average *ROA* over a period of three years (2002-2004). A higher *ROA* indicates the management's ability to utilise companies' assets efficiently in serving shareholders' economic interests (Al-Shammari and Al-Sultan, 2010). A positive association is anticipated.

TOBIN'S Q

Tobin's Q ($TOBINSQ_i$) is calculated by the market value of the company plus preference shares plus total debt divided by total assets. These figures are used to calculate present market-based economic performance and are obtained from the 2004 financial statements for each of the companies in the sample. Past market-based economic performance is calculated by averaging Tobin's Q for 2002-2004 with the figures obtained from the annual reports.

This calculation is the same method used by Chung and Pruitt (1994), Christensen et al. (2010) and Moroney et al. (forthcoming). The financial information applied in the formula is available from database sources used to obtain other information in this study. If Tobin's Q is greater than 1.0, then the market value is greater than the value of the company's recorded assets. This suggests that the market value reflects some unmeasured or unrecorded assets of the company.

High Tobin's Q values encourage companies to invest more in capital because they are worth more than the price they paid for them (Christensen et al., 2010). Therefore, a company's present market-based economic performance is operationalised as the company's approximate Tobin's Q for 2004. A positive relationship is predicted.

4.6 CONTROL VARIABLES

4.6.1 ADVERSE PUBLICITY

The adverse publicity ($ADVPUBL_i$) variable was collected from the Factiva database for each sample company for any published news article from 1st July 2003 to 30th June 2004. The database records editorials from all major Australian and New Zealand newspapers. A search was done on each company in the sample using the database to find any negative information about the company and the employees over the one-year period specified. The items of news were read and interpreted to determine whether they constituted adverse publicity (bad news) relating to the company's employees based on the nature and content of the items. Each article meeting the criteria of "bad news" is assigned a score of one. The companies' scores are added together to obtain a total score of adverse publicity. Therefore, a company with 21 newspaper articles containing negative information relating to their employees in the 12 months leading up to 30th June 2004 has an adverse publicity score of 21.

This method was undertaken by three independent researchers to minimise any experimental bias and the results are consistent across the sample. A positive relationship is anticipated between the number of adverse newspaper articles and disclosure of employee-related information.

4.6.2 SIZE (EMPLOYEE CONCENTRATION)

This study measures size by the number of employees divided by market capitalisation[13] in 2004. It is predicted that the greater the proportion of employees to the size of the company, the more likely the company will make employee-related disclosures in the annual report and the

13 Market capitalisation is a measurement of size of a company equal to the share price times the number of shares outstanding.

greater the amount of employee-related information disclosed.

4.6.3 SHAREHOLDER POWER (OWNERSHIP CONCENTRATION)

The power of the shareholders within the company is proxied by the distribution of ownership of the shares in the company. Ownership concentration is measured as the percentage of outstanding ordinary shares held by shareholders who own 5 per cent or more of the shares, otherwise known as block holders (denoted as $BLOCK_i$). Shareholding information is obtained through the 2004 annual report disclosure of the top twenty shareholdings in each of the sampled companies.

4.6.4 CREDITOR POWER (LEVERAGE)

It is supposed that employee-related disclosures are related to the degree in which the company relies upon debt financing. The stakeholder power of the creditors is measured by the debt to asset ratio ($LEVERAGE_i$). This ratio is chosen to represent creditor power because it captures the importance of creditors relative to the total assets held by the company. Information regarding the debt and asset content of the companies is obtained through the sample companies' 2004 annual reports.

4.6.5 INDUSTRY CLASSIFICATION

The nature of a company's industry is identified as a possible factor affecting corporate social disclosure practices. Industry membership is coded according to the Global Industry Classification Standard (GICS) sector, as presented in the table below. Each industry sector is measured as a dichotomous variable, with a value of one if the company belongs to the specific industry sector, and a value of zero if the company is not classified as a member of the relevant industry.

TABLE 4-5 GLOBAL INDUSTRY CLASSIFICATION STANDARD CATEGORIES

	Sector	Industry Group
1	Energy	Energy
2	Materials	Materials
3	Industrial	Capital Goods
		Commercial Services and Supplies
		Transportation
4	Consumer Discretionary	Automobiles and Components
		Consumer Durables and Apparel
		Consumer Services
		Media
		Retailing
5	Consumer Staples	Food and Staples
		Food, Beverage and Tobacco
		Household and Personal Products
6	Health Care	Health Care Equipment and Services
		Pharmaceuticals, Biotechnology and Life Sciences
7	Financials	Banks
		Diversified Financials
		Insurance
		Real Estate
8	Information Technology	Software and Services
		Technology Hardware and Equipment
		Semiconductors and Semiconductor Equipment
9	Telecommunication Services	Telecommunication Services
10	Utilities	Utilities

SOURCE: GLOBAL INDUSTRY CLASSIFICATION STANDARD (GICS) METHODOLOGY (AUGUST, 2006)

4.7 TESTS

The key analyses use binary regression and multiple ordinary least squares regressions for the quantity and quality of voluntary employee-related disclosures. These are also used to determine the power of the explanatory variables in predicting the companies that disclose employee-related information in their annual reports or otherwise, the level of disclosure and the nature of disclosure. Controls for the associations of adverse publicity, employee concentration, shareholder power, creditor power, and industry classification are also included in the regression model. Multiple regression is based on the presumption that no multicollinearity exists between the independent variables, suggesting there is no exact linear relationship between the independent variables (Gujarati, 1992). To test whether a relationship exists between the independent variables, Pearson's bi-variate correlation is performed. Descriptive statistics are also reported for the dependent and independent variables in the models and are covered further in Chapter Five.

4.8 MODELS

Ten models are used to test the hypotheses. Five of the models (Models 1, 3, 5, 7 and 9) apply the corporate governance score. The other five models (Models 2, 4, 6, 8 and 10) apply the corporate governance characteristics individually in the model and are expressed as follows:

Corporate Governance Score		Individual Corporate Governance Characteristics	
Binary Logistic Regression – All companies			
Model 1	$EMPD_i = b_0 + b_1 EMPSHR_i + b_2 TRADEUN_i + b_3 EMPMIS_i + b_4 CORPGOV_i + b_5 ROA_i + b_6 TOBINSQ_i + b_7 ADVPUBL_i + b_8 SIZE_i + b_9 BLOCK_i + b_{10} LEVERAGE_i + b_{11} ENERGY_i + b_{12} TELECOM_i + b_{13} UTILITY_i + b_{14} FINANCE_i + b_{15} HEALTH_i + b_{16} CONSDIS_i + b_{17} IT_i + e.$	**Model 2**	$EMPD_i = b_0 + b_1 EMPSHR_i + b_2 TRADEUN_i + b_3 EMPMIS_i + b_{4i} NDIR_i + b_5 BRDINDEP_i + b_6 DUAL_i + b_7 BRDMEET_i + b_8 AUDITCOM_i + b_9 REMCOM_i + b_{10} NOMCOM_i + b_{11} SOCCOM_i + b_{12} AUDITOR_i + b_{13} ROA_i + b_{14} TOBINSQ_i + b_{15} ADVPUBL_i + b_{16} SIZE_i + b_{17} BLOCK_i + b_{18} LEVERAGE_i + b_{19} ENERGY_i + b_{20} TELECOM_i + b_{21} UTILITY_i + b_{22} FINANCE_i + b_{23} HEALTH_i + b_{24} CONSDIS_i + b_{25} IT_i + e.$
OLS Regression – All companies			
Model 3	$QUANTEMPD_i = b_0 + b_1 EMPSHR_i + b_2 TRADEUN_i + b_3 EMPMIS_i + b_4 CORPGOV_i + b_5 ROA_i + b_6 TOBINSQ_i + b_7 ADVPUBL_i + b_8 SIZE_i + b_9 BLOCK_i + b_{10} LEVERAGE_i + b_{11} ENERGY_i + b_{12} TELECOM_i + b_{13} UTILITY_i + b_{14} FINANCE_i + b_{15} HEALTH_i + b_{16} CONSDIS_i + b_{17} IT_i + e.$	**Model 4**	$QUANTEMPD_i = b_0 + b_1 EMPSHR_i + b_2 TRADEUN_i + b_3 EMPMIS_i + b_{4i} NDIR_i + b_5 BRDINDEP_i + b_6 DUAL_i + b_7 BRDMEET_i + b_8 AUDITCOM_i + b_9 REMCOM_i + b_{10} NOMCOM_i + b_{11} SOCCOM_i + b_{12} AUDITOR_i + b_{13} ROA_i + b_{14} TOBINSQ_i + b_{15} ADVPUBL_i + b_{16} SIZE_i + b_{17} BLOCK_i + b_{18} LEVERAGE_i + b_{19} ENERGY_i + b_{20} TELECOM_i + b_{21} UTILITY_i + b_{22} FINANCE_i + b_{23} HEALTH_i + b_{24} CONSDIS_i + b_{25} IT_i + e.$
OLS Regression – Disclosing companies only			
Model 5	$QUANTEMPD_i = b_0 + b_1 EMPSHR_i + b_2 TRADEUN_i + b_3 EMPMIS_i + b_4 CORPGOV_i + b_5 ROA_i + b_6 TOBINSQ_i + b_7 ADVPUBL_i + b_8 SIZE_i + b_9 BLOCK_i + b_{10} LEVERAGE_i + b_{11} ENERGY_i + b_{12} TELECOM_i + b_{13} UTILITY_i + b_{14} FINANCE_i + b_{15} HEALTH_i + b_{16} CONSDIS_i + b_{17} IT_i + e..$	**Model 6**	$QUANTEMPD_i = b_0 + b_1 EMPSHR_i + b_2 TRADEUN_i + b_3 EMPMIS_i + b_{4i} NDIR_i + b_5 BRDINDEP_i + b_6 DUAL_i + b_7 BRDMEET_i + b_8 AUDITCOM_i + b_9 REMCOM_i + b_{10} NOMCOM_i + b_{11} SOCCOM_i + b_{12} AUDITOR_i + b_{13} ROA_i + b_{14} TOBINSQ_i + b_{15} ADVPUBL_i + b_{16} SIZE_i + b_{17} BLOCK_i + b_{18} LEVERAGE_i + b_{19} ENERGY_i + b_{20} TELECOM_i + b_{21} UTILITY_i + b_{22} FINANCE_i + b_{23} HEALTH_i + b_{24} CONSDIS_i + b_{25} IT_i + e.$
OLS Regression – All companies			
Model 7	$QUALEMPD_i = b_0 + b_1 EMPSHR_i + b_2 TRADEUN_i + b_3 EMPMIS_i + b_4 CORPGOV_i + b_5 ROA_i + b_6 TOBINSQ_i + b_7 ADVPUBL_i + b_8 SIZE_i + b_9 BLOCK_i + b_{10} LEVERAGE_i + b_{11} ENERGY_i + b_{12} TELECOM_i + b_{13} UTILITY_i + b_{14} FINANCE_i + b_{15} HEALTH_i + b_{16} CONSDIS_i + b_{17} IT_i + e.$	**Model 8**	$QUALEMPD_i = b_0 + b_1 EMPSHR_i + b_2 TRADEUN_i + b_3 EMPMIS_i + b_{4i} NDIR_i + b_5 BRDINDEP_i + b_6 DUAL_i + b_7 BRDMEET_i + b_8 AUDITCOM_i + b_9 REMCOM_i + b_{10} NOMCOM_i + b_{11} SOCCOM_i + b_{12} AUDITOR_i + b_{13} ROA_i + b_{14} TOBINSQ_i + b_{15} ADVPUBL_i + b_{16} SIZE_i + b_{17} BLOCK_i + b_{18} LEVERAGE_i + b_{19} ENERGY_i + b_{20} TELECOM_i + b_{21} UTILITY_i + b_{22} FINANCE_i + b_{23} HEALTH_i + b_{24} CONSDIS_i + b_{25} IT_i + e.$
OLS Regression – Disclosing companies only			
Model 9	$QUALEMPDi = b_0 + b_1 EMPSHR_i + b_2 TRADEUN_i + b_3 EMPMIS_i + b_4 CORPGOV_i + b_5 ROA_i + b_6 TOBINSQ_i + b_7 ADVPUBL_i + b_8 SIZE_i + b_9 BLOCK_i + b_{10} LEVERAGE_i + b_{11} ENERGY_i + b_{12} TELECOM_i + b_{13} UTILITY_i + b_{14} FINANCE_i + b_{15} HEALTH_i + b_{16} CONSDIS_i + b_{17} IT_i + e.$	**Model 10**	$QUALEMPD_i = b_0 + b_1 EMPSHR_i + b_2 TRADEUN_i + b_3 EMPMIS_i + b_{4i} NDIR_i + b_5 BRDINDEP_i + b_6 DUAL_i + b_7 BRDMEET_i + b_8 AUDITCOM_i + b_9 REMCOM_i + b_{10} NOMCOM_i + b_{11} SOCCOM_i + b_{12} AUDITOR_i + b_{13} ROA_i + b_{14} TOBINSQ_i + b_{15} ADVPUBL_i + b_{16} SIZE_i + b_{17} BLOCK_i + b_{18} LEVERAGE_i + b_{19} ENERGY_i + b_{20} TELECOM_i + b_{21} UTILITY_i + b_{22} FINANCE_i + b_{23} HEALTH_i + b_{24} CONSDIS_i + b_{25} IT_i + e.$

Variable	Description
Dependent variables	
$EMPD_i$	= 1 if the company discloses employee-related information, and 0 otherwise.
$QUANTEMPD_i$	= number of sentences of employee-related disclosure.
$QUALEMPD_i$	= the number of different types of employee categories disclosed.
Stakeholder Power variables	
$EMPSHR_i$	= 1 if the company has a share ownership scheme in 2004, and 0 otherwise.
$TRADEUN_i$	= 1 if the company is in a highly unionised industry, and 0 otherwise
Strategic Posture variables	
$EMPMIS_i$	= 1 if the company discloses employee-related information in the mission statement, and 0 otherwise.
$CORPGOV_i$	= corporate governance score out of nine, based on corporate governance variables.
Corporate Governance variables:	
$NDIR_i$	= number of directors on the board
$BRDINDEP_i$	= 1 if majority of independent directors on the board, and 0 otherwise.
$DUAL_i$	= 1 if the CEO is also the chair, and 0 otherwise.
$BRDMEET_i$	= number of board meetings during 2004.
$AUDITOR_i$	= 1 if a Big Four auditor is used, and 0 otherwise.
$AUDITCOM_i$	= 1 if the company has an audit committee, and 0 otherwise.
$REMCOM_i$	= 1 if the company has a remuneration committee, and 0 otherwise.
$NOMCOM_i$	= 1 if the company has a nomination committee, and 0 otherwise.
$SOCCOM_i$	= 1 if the company has a social responsibility committee, and 0 otherwise.
Economic Performance variables	
ROA_i	= return of assets at balance date
$TOBINSQ_i$	= market value of the company plus preference shares plus total debt divided by total assets.
Control variables	
$ADVPUBL_i$	= number of adverse media publicities in the year prior to 2004.
$SIZE_i$	= percentage of employees to market capitalisation.
$BLOCK_i$	= percentage of outstanding ordinary shares held by shareholders who own 5% or more of the shares.
$LEVERAGE_i$	= total debt divided by total assets in 2004.
$MATERIAL_i$	= 1 if the company is in the materials industry, and 0 otherwise.
$UTILITY_i$	= 1 if the company is in the utility industry, and 0 otherwise.
$TELECOM_i$	= 1 if the company is in the telecommunications industry, and 0 otherwise.
$INDUSTRIAL_i$	= 1 if the company is in the industrial industry, and 0 otherwise.
$HEALTH_i$	= 1 if the company is in the healthcare industry, and 0 otherwise.
$CONSDIS_i$	= 1 if the company is in the consumer discretionary industry, and 0 otherwise.
IT_i	= 1 if the company is in the information technology industry, and 0 otherwise.
$FINANCE_i$	= 1 if the company is either a bank or an insurance company, and 0 otherwise.
$CONSSTAP_i$	= 1 if the company is in the consumer staples industry, and 0 otherwise.

4.9 CHAPTER SUMMARY

Numerous variables have been examined to explain the voluntary disclosure of social information. Stakeholder theory, along with other complementary theories, as outlined in chapter two, identifies corporate governance variables as competing hypotheses and alternative control variables in determining the quantity and quality of voluntary employee-related disclosures in annual reports. This study analyses ten models to determine the presence of voluntary employee-related disclosures (dependent variable = $EMPD_i$), the amount of employee-related information in the annual reports (dependent variable = $QUANTEMPD_i$), the quality of the disclosures (dependent variable = $QUALEMPD_i$) and the nature of these disclosures (dependent variable = $NATUREMPD_i$). The independent variables included are related to operationalising Ullmann's stakeholder framework, while the control variables are represented by adverse publicity, size, blockholders, leverage and industry classification.

Multivariate tests are used to determine the overall power of the explanatory variables in predicting which companies do or do not disclose employee-related information in their annual report, the level of disclosure, the quality of disclosure, and the nature of disclosure.

The following chapter identifies the descriptive statistics and analyses the results, which test the hypotheses of the study.

CHAPTER 5

ANALYSIS AND RESULTS

5.1 INTRODUCTION

The first four chapters introduce the research, discuss the literature concerning the conceptual framework, and explain the methodologies proposed for analysing the dependent and independent variables, and relationships between constructs. The purpose of this chapter is to present the descriptive and empirical results. It also addresses preliminary data analysis including a discussion of the underlying assumptions of multiple regressions. The results of the hypotheses testing are provided and robustness tests are explained.

5.2 SAMPLE PROFILE

Table 5-1 shows the industry classification of the 970 sample companies as per the Global Industry Classification Standard (GICS). The largest representation of the sample is from the materials industry with a total of 177 companies. A total of 121 of these companies disclosed employee-related information in their 2004 annual report. This result is not surprising given that companies from the materials industry directly affect the natural environment and the surrounding areas in which they operate, and their operations are susceptible to accidents involving employees (Dierkes and Preston, 1977; IIED, 2002; Yongvanich and Guthrie, 2007). The smallest representation of the sample is from the utilities industry with a total of 13 companies, with 8 of these companies disclosing employee-related information.

Interestingly, the consumer discretionary industry is the largest industry of employee-related disclosure in relation to the number of companies operating in that industry. Consumer discretionary companies are expected to show further concern indicating their social responsibility to the community, since this is likely to improve their corporate image and influence revenues (Cowen et al., 1987). This sector of the economy relies on consumers to spend their disposable income on items that are not necessary for survival. In many economies, this is the largest segment of the economy because it includes automobiles, all retail stores, fast food and media companies (ASX, 2010).

The smallest representation of the disclosure of employee-related information in the sample is from the telecommunications industry. Although these companies are primarily serviced-based firms, their employees usually communicate with consumers via media channels such as the telephone or internet, rather than face-to-face as with the consumer discretionary industry. It is expected that service-based companies place greater importance on their staff than product-based counterparts, as they rely on their employees' knowledge and expertise to ensure the company's ongoing survival (Magness, 2006; Shocker and Sethi, 1974). Service firms recognise that achieving customer-oriented behaviours from their employees is vital. Service firms utilise their human resource practices to stimulate and reinforce the behaviours needed for the successful implementation of greater customer-oriented strategies because these behaviours are often different from those exhibited by the employees in the past (Jackson and Schuler, 1992). This point, however, is not reflected in the study.

TABLE 5-1 INDUSTRY CLASSIFICATION OF SAMPLE COMPANIES

GICS Industry Classification	# of Sample Companies	% of Total Sample	# of Disclosing Companies	% of Sample Companies*
Consumer Discretionary	125	12.89	92	73.60
Consumer Staples	48	4.95	34	70.83
Energy	29	2.99	21	72.41
Financial	173	17.84	105	60.69
Healthcare	120	12.37	88	73.33
Industrial	141	14.54	97	68.79
Information Technology	116	11.96	68	58.62
Materials	177	18.25	121	68.36
Telecommunications	28	2.89	15	53.57
Utility	13	1.34	8	61.54
Total	970	100	649	66.91

* Percentage of companies disclosing employee-related information.

Table 5-1 illustrates that 66.91 per cent (649 companies) of the total sample of companies are disclosing some type of employee-related information in their 30th June 2004 annual report.

5.3 DESCRIPTIVE STATISTICS

The descriptive statistics for the dependent and independent variables in the models are shown in the tables below. The continuous variables are illustrated in Table 5-2 and the binary variables in Table 5-3.

Table 5-2 reveals the number of sentences of employee-related disclosure range from zero to 139, with a mean of 9.90. On average, companies disclose around one to two categories of employee-related information out of the nine items developed as the quality measure (see Appendix 4).

The number of employees varies between companies and industry groups, with a total sample range of zero to 89,208 and a mean of 1,212 employees. This illustrates the difference in size and disclosure coverage by companies being analysed in this study. The employee concentration variable shows an average ratio of 5.97 indicating an average of 6 million dollars of market capitalisation per employee. The larger the ratio, the greater the market capitalisation of the company in relation to its employees, hence the less power the employees have per capita.

The average percentage of employees who belong to a trade union is 21.81 per cent, with the utility industry considered to be the most highly unionised with 52.30 per cent of employees belonging to a trade union, and the agriculture, forestry and fishing industry the least unionised with only 4.70 per cent of employees belonging to a union[14].

The total assets differ substantially across the companies in the sample with mean total assets of $1.00 billion and median total assets of $30.81 million. Similarly, the sample companies

[14] See Appendix 7 for a summary of trade union membership at the industry level.

have diverse net profit levels with the mean being $37.17 million and median $0.52 million, while the minimum is a loss of $726.58 million and the maximum is $4.94 billion. The mean return on assets is -0.75 per cent with the median 0.02 per cent, while the average Tobin's Q is 4.33. Debt to assets averages 0.48 with a median ratio of 0.38.

An examination of the corporate governance practices illustrates the following characteristics amongst the sample companies. Board size ranges from a minimum of three directors to a maximum of 15 directors, with a mean (median) of 5.06 (5) members. The mean (median) number of independent directors on the board is 2.59 (1). The mean ratio of independent directors on the board is 61 per cent. The sample companies have an average of 10.53 meetings in the year 2004 with a minimum of one, maximum of 51 and a median of 11 meetings. Further analysis indicates that 42 companies (4.30 per cent of total sample) held more than 20 meetings during 2004 while 13 companies (1.30 per cent of total sample) held only one meeting that year. It appears that most companies meet approximately once a month.

Among other corporate governance attributes, 82 per cent of the companies have an audit committee, 56 per cent have a remuneration committee, 31 per cent have a nomination committee, but only 12 per cent of companies have a social responsibility committee. This indicates that few companies have a formal structure in place for social responsibility practices. More than half of the companies in the sample are audited by one of the Big 4 accounting firms, and 11 per cent of companies have a dual CEO and chairperson of the board. Overall, the average corporate governance index score is 5.36 out of a possible nine.

Table 5-3 shows that 98 per cent of the companies disclosing information about the employees are disclosing positive information. It also illustrates that only 37 per cent of companies have their mission statement publicly available on either their website or within their 2004 annual report, and only 19 per cent of companies refer to their employees in their mission statement. Some 54 per cent of companies have an employee share ownership scheme in place, providing their employees with the opportunity to also be shareholders in the company.

Results in Table 5-4 reveal that 13 per cent of the publicly listed companies as at the 30th June 2004 have adverse publicity in major Australian and New Zealand Newspapers in the previous year. The average number of adverse newspaper articles for companies in the sample with adverse publicity is 4.08 articles with a range of 1 to 45. The average is 0.68 with a range of 0 to 45 when all companies, including non-disclosing companies were included in calculating descriptive statistics (see Table 5-2).

TABLE 5-2 DESCRIPTIVE STATISTICS – CONTINUOUS VARIABLES

Variable	Minimum	Maximum	Mean	Median	Std. Dev.
Number of sentences	0.00	139.00	9.90	2.00	18.12
Number of employee categories	0.00	9.00	1.67	1.00	1.71
Employee concentration	0.002	437.36	5.97	1.60	19.54
Trade union membership (%)	4.70	52.30	21.81	17.40	8.05
Block holders (%)	0.00	99.80	39.18	39.84	22.23
Debt to total assets	0.00	35.51	0.48	0.38	1.46
Number of directors on board	3.00	15.00	5.06	5.00	1.79
Number of independent directors	0.00	11.00	2.59	1.00	1.66
Number of board meetings	0.00	51.00	10.53	11.00	4.98
Total assets (in millions)	0.0097	305995.00	1004.97	30.81	10567.92
Log of total assets	9.18	26.45	17.44	17.24	2.27
Return on assets	-595.98	73.50	-0.75	0.02	19.59
Net profit after tax (in millions)	-726.58	4939.76	37.17	0.52	277.55
Tobin's Q	0.10	400.79	4.33	1.47	22.65
Number of adverse newspaper articles	0.00	45.00	0.68	0.00	3.12
Corporate governance score	0.00	9.00	5.36	4.00	2.59
Number of employees	1.00	89208.00	1212.04	49.00	5692.93

TABLE 5-3 DESCRIPTIVE STATISTICS – DICHOTOMOUS VARIABLES

Variable	Yes	Number of Companies	No	Number of Companies
Presence of employee-related disclosures	0.67	649	0.33	321
Positive employee-related disclosures	0.98	633	0.02	16
Employee share ownership scheme	0.54	519	0.46	451
Mission statement	0.37	355	0.63	615
Employee information in mission statement	0.19	184	0.81	171
Board independence	0.61	583	0.39	387
Duality of CEO/chair	0.11	109	0.89	861
Audited by Big 4	0.58	561	0.42	409
Audit committee	0.82	796	0.18	174
Remuneration committee	0.56	544	0.44	426
Nomination committee	0.31	298	0.69	672
Social committee	0.12	113	0.88	857

Table 5-4 provides a detailed analysis of adverse publicity. Panel A shows that 16.33 per cent of the 649 companies that disclosed employee-related information received adverse publicity during 2003-2004, compared with only 5.61 per cent of the 321 non-disclosing companies in the previous year. When analysing the entire sample, 12.78 per cent of the 970 companies experienced some element of adverse publicity during that year. The only industry that did not have any adverse publicity was the utilities industry containing a small sample of only 13 companies.

Panel B lists the frequency of adverse publicity reported for the sample companies by GICS industry classification. Different companies face distinctive levels of industrial debate. This means that certain companies have more motivation to provide information that reduces actual and potential adverse publicity relating to their employees. Companies with higher levels of industrial volatility are more likely to make an effort to manage the impressions of stakeholders than those with lower levels of volatility (Magness, 2006). Corporate responsibility is increasingly considered an integral part of core business values and strategy, rather than an isolated function within companies dealing with risks of non-compliance or damage to reputation from negative publicity or scandals (KPMG, 2005).

TABLE 5-4 DESCRIPTIVE ANALYSIS OF ADVERSE PUBLICITY

PANEL A FREQUENCY OF ADVERSE PUBLICITY BY COMPANIES

	Disclosing companies	Non-disclosing companies	Total
Number of companies	649	321	970
Companies with adverse publicity	106	18	124
Percentage	16.33% (106/649)	5.61% (18/321)	12.78% (124/970)

PANEL B FREQUENCY OF ADVERSE PUBLICITY BY GICS INDUSTRY CLASSIFICATION

GICS Industry Classification	Frequency of Adverse Publicity	Number of Companies with Adverse Publicity	Percentage of Industry*
Consumer Discretionary	174	28	22.40
Industrial	121	24	17.02
Materials	89	20	11.30
Financial	99	17	9.83
Consumer Staples	52	11	22.92
Healthcare	49	8	6.67
Information Technology	15	8	6.90
Telecommunications	55	7	25.00
Energy	4	1	3.45
Utilities	0	0	0

Note: (*) Percentage refers to the % of companies within the GICS classification that had adverse publicity.

PANEL C EXAMPLES OF ADVERSE PUBLICITY ITEMS

Employees hospitalised	Mining accidents
Gas and fire accidents	Pollution
Toxic poisoning	Bank closures and loss of jobs
Industrial accidents	Remuneration disputes
Job cuts	Union activity
Lost jobs and objection to executive remuneration	Lawsuit for negligence and damage
Safety and environmental concerns	

Table 5-5 Panel A illustrates the prevalence of the different categories of employee-related information present in the samples' annual reports. Employee morale is surprisingly the most frequently disclosed type of employee-related information (462), followed by industrial relations-related disclosures (403). Employment of minorities is by far the least discussed of all the categories with only 14 disclosures made over the entire sample. This result is different to that reported by Deegan et al. (2000) who find that health and safety disclosures are the most prevalent. In this study, only 135 employee disclosures relating to health and safety are revealed across the sample.

TABLE 5-5 DESCRIPTIVE ANALYSIS OF EMPLOYEE INFORMATION

PANEL A NATURE OF EMPLOYEE DISCLOSURE ITEMS

Nature of Employee Disclosures	Total number of disclosures by companies	Percentage (%)
Employee morale	462	28.31
Industrial relations	403	24.69
Employee benefits	360	22.06
Occupational health and safety issues	135	8.27
Training and development	132	8.09
Employee assistance	62	3.80
Remuneration	46	2.82
Other	18	1.10
Employment of minorities	14	0.86
Total	**1,632**	**100**

Panel B displays a breakdown of the number of employees in each industry. The consumer staples industry has the highest mean number of employees (4,653) and also the largest sized company based on staff, Coles Myer Limited with 89,208 employees recorded for 2004. The information technology sector has the lowest mean number of employees (207). There are 43 companies in the sample who employ only one person.

PANEL B EMPLOYEE NUMBERS BY INDUSTRY

	Mean	Median	Standard Deviation	Min	Max	Number of Companies	% of Total Companies
Energy	216.93	8.00	717.16	1	3211	29	2.99
Telecommunications	3778.04	44.50	15034.82	1	78100	28	2.89
Utility	306.85	17.00	886.62	1	3239	13	1.34
Materials	1089.84	14.00	4164.01	1	36468	177	18.25
Industrial	1905.91	190.00	5386.76	1	33862	141	14.54
Finance	573.62	32.00	3018.75	1	36296	173	17.84
Healthcare	644.76	19.50	2107.88	1	12168	120	12.37
Consumer Discretionary	1391.70	231.00	3490.12	1	31400	125	12.89
Information Technology	207.30	41.00	769.08	1	7995	116	11.96
Consumer Staples	4653.38	115.00	16882.57	1	89208	48	4.95
Total						**970**	**100**

5.4 CORRELATIONS

Tables 5-6A and 5-6B report Pearson's bi-variate correlation statistics between the variables used to test the hypotheses. Correlations[15] are performed to provide an early indication of any multicollinearity problems which, if found, might pose a threat to the multivariate analysis (Tabachnick and Fidell, 2007). Very low tolerance levels (approaching zero) or very high variance inflation factors (VIF) suggest that multicollinearity is a concern. In this study VIF scores are well below the VIF value of 10 that indicates a threat of multicollinearity (Pallant, 2007). Thus, multicollinearity is not a concern in this study.

The quality of employee-related disclosure variable, measured by the number of categories of employee-related information using the GRI index ($QUALEMPD_i$, r = 0.69) is positively significantly correlated to the dependent variable, presence of employee-related disclosure ($EMPD_i$). The variables quality of employee-related disclosure ($QUALEMPD_i$, r = 0.68), the corporate governance score ($CORPGOV_i$, r = 0.42), the number of directors on the board ($NDIR_i$, r = 0.41) and the log of total assets ($LASSETS_i$, r = 0.48) are positively significantly

[15] Only significant correlations with an r > 0.40 and p<= .01 sign level have been discussed.

correlated to the dependent variable, quantity of employee-related disclosures (*$QUANTEMPD_i$*). The corporate governance score variable (*CORPGOV*, r = 0.46), the number of directors on the board (*$NDIR_i$*, r = 0.42) and the log of total assets (*$LASSETS_i$*, r = 0.48) are positively significantly correlated to the quality of employee-related disclosures (*$QUALEMPD_i$)*.

Additionally, the corporate governance score (*$CORPGOV_i$*, r = 0.46), the number of directors on the board (*$NDIR_i$*, r = 0.41), the presence of an audit committee (*$AUDITCOM_i$*, r = 0.41), the presence of a nomination committee (*$NOMCOM_i$*, r = 0.42), big 4 auditor (*$AUDITOR_i$*, r = 0.41) and the number of adverse publicity newspaper articles (*$ADVPUBL_i$*, r = 0.40) are positively significantly correlated to the variable log of total assets (*$LASSETS_i$)*. Return on assets (*ROA_i*, r = -0.46) is negatively significantly related to debt to assets (*$LEVERAGE_i$*), and the utility (r = 0.44) industry is positively related and the finance (r = -0.46) industry is negatively significantly related to trade union membership (*$TRADEUN_i$*).

TABLE 5-6A PEARSON'S BI-VARIATE CORRELATION MATRIX – DEPENDENT AND INDEPENDENT VARIABLES

	EMPD	QUANTEMPD	QUALEMPD	EMPSHR	TRADEUN	EMPMIS	CORPGOV	NDIR	BRDINDEP	DUAL	BRDMEET	AUDITCOM	REMCOM	NOMCOM	SOCCOM	AUDITOR	ROA
QUANTEMPD	.39**																
QUALEMPD	.69**	.68**															
EMPSHR	.27**	.22**	.28**														
TRADEUN	-.01	.03	.01	.15**													
EMPMIS	.08*	.21**	.20**	.10**	.05												
CORPGOV	.39**	.42**	.46**	.37**	.06	.16**											
NDIR	.28**	.41**	.42**	.26**	.05	.18**	.62**										
BRDINDEP	.13**	.16**	.14**	.06*	.02	.06	.40**	.12**									
DUAL	-.14**	-.11**	-.16**	-.08*	.05	-.09**	-.03	-.15**	-.07*								
BRDMEET	.15**	.11**	.14**	.16**	.05	.00	.35**	.09**	.03	-.05							
AUDITCOM	.32**	.22**	.29**	.28**	.05	.06	.62**	.36**	.21**	-.18**	.20**						
REMCOM	.32**	.26**	.34**	.30**	.08*	.10**	.71**	.40**	.14**	-.11**	.17**	.47**					
NOMCOM	.24**	.33**	.34**	.20**	-.02	.13**	.65**	.39**	.12**	-.07*	.12**	.29**	.52**				
SOCCOM	.17**	.29**	.30**	.15**	-.01	.14**	.38**	.31**	.05	-.08*	.08*	.14**	.19**	.19**			
AUDITOR	.23**	.26**	.27**	.28**	.04	.10**	.54**	.36**	.10**	-.11**	.06*	.21**	.27**	.27**	.13**		
ROA	.08*	.13**	.12**	.06	.06*	.08**	.14**	.12**	.03	-.05	.02	.12**	.10**	.10**	.02	.09**	
TOBINSQ	-.09**	.04	-.04	-.04	.08*	.05	-.05	-.05	.00	-.02	-.05	-.06	-.03	-.02	-.03	.02	.02

- Significant at the 0.05 level (2 tailed), ** Significant at the 0.01 level (2 tailed)

EMPD$_i$= 1 if the company discloses employee-related information, and 0 otherwise; *QUANTEMPD*$_i$ = number of sentences of employee-related disclosure; *QUALEMPD*$_i$ = the number of different types of employee categories disclosed; *EMPSHR*$_i$= 1 if the company has a share ownership scheme in 2004, and 0 otherwise; *TRADEUN*$_i$ = 1 if the company is in a highly unionised industry, and 0 otherwise; *EMPMIS*$_i$ = 1 if the company discloses employee-related information in the mission statement, and 0 otherwise; *CORPGOV*$_i$ = score out of nine, based on corporate governance variables; *NDIR*$_i$ = number of directors on the board; *BRDINDEP*$_i$ = 1 if majority of independent directors on the board, and 0 otherwise; *DUAL*$_i$ = 1 if the CEO is also the chair, and 0 otherwise; *BRDMEET*$_i$ = number of board meetings during 2004; *AUDITOR*$_i$ = 1 if a Big Four auditor is used, and 0 otherwise; *AUDITCOM*$_i$ = 1 if the company has an audit committee, and 0 otherwise; *REMCOM*$_i$ = 1 if the company has a remuneration committee, and 0 otherwise; *NOMCOM*$_i$ = 1 if the company has a nomination committee, and 0 otherwise; *SOCCOM*$_i$ = 1 if the company has a social committee, and 0 otherwise; *TOBINSQ*$_i$= market value of the company plus preference shares plus total debt divided by total assets; *ROA*$_i$= return of assets at balance date; *ADVPUBL*$_i$ = number of adverse media publicities in the year prior to 30th June 2004; *SIZE*$_i$ = percentage of employees to market capitalisation; *BLOCK*$_i$= percentage of outstanding ordinary shares held by shareholders who own 5% or more of the shares; *LEVERAGE*$_i$ = total debt divided by total assets in 2004; *MATERIAL*$_i$= 1 if the company is in the materials industry, and 0 otherwise; *UTILITY*$_i$ = 1 if the company is in the utility industry, and 0 otherwise; *TELECOM*$_i$ = 1 if the company is in the telecommunications industry, and 0 otherwise; *INDUSTRIAL*$_i$ = 1 if the company is in the industrial industry, and 0 otherwise; *HEALTH*$_i$= 1 if the company is in the healthcare industry, and 0 otherwise; *CONSDIS*$_i$= 1 if the company is in the consumer discretionary industry, and 0 otherwise; *IT*$_i$ = 1 if the company is in the information technology industry, and 0 otherwise. *FINANCE*$_i$= 1 if the company is either a bank or an insurance company, and 0 otherwise. *CONSSTAP*$_i$ = 1 if the company is in the consumer staples industry, and 0 otherwise.

TABLE 5-6B PEARSON'S BI-VARIATE CORRELATION MATRIX – CONTROL VARIABLES

	EmpD	QUANTEMPD	QUALEMPD	EMPSHR	TRADEUN	EMPMIS	CORPGOV	NDIR	BRDINDEP	DUAL	BRDMEET	AUDITCOM	REMCOM	NOMCOM	SOCCOM	AUDITOR	ROA	TOBINSQ	ADVPUBL	SIZE	BLOCK	LEVERAGE	LASSETS	ENERGY	TELECOM	UTILITY	MATERIAL	INDUSTRIAL	FINANCE	HEALTH	CONSDIS
ADVPUBL	.12**	.25**	.21**	.14**	.04	.11**	.22**	.39**	.08*	-.06	.05	.09**	.11**	.12**	.23**	.15**	.04	-.01													
SIZE	.02	.05	.02	.02	.03	.08*	.00	.00	-.02	.01	.04	.01	-.01	-.01	-.01	.02	-.01	-.04	.07*												
BLOCK	-.01	.00	.00	-.02	-.03	.00	.03	.08*	-.08*	.03	.02	.06	.06	.03	-.01	-.01	.10**	.00	.06	.02											
LEVERAGE	-.03	-.01	-.02	.00	.04	.02	-.04	-.05	-.01	-.02	.00	-.08*	-.04	-.02	.08*	-.01	-.46**	.31**	.02	.05	.00										
LASSETS	.32**	.48**	.48**	.23**	-.14**	.20**	.60**	.66**	.16**	-.16**	.15**	.41**	.37**	.42**	.32**	.41**	.23**	-.23**	.40**	.06*	.08*	-.12**									
ENERGY	.02	.02	.02	-.02	-.10**	-.04	-.03	-.05	.03	.03	-.03	-.03	-.02	-.04	-.01	-.01	.02	-.02	-.03	-.03	-.11**	-.03	.02								
TELECOM	-.05	.03	.03	.11**	.15**	.01	.02	.03	-.01	.04	.00	.05	.03	.02	.01	.02	-.01	-.01	.07*	.03	.03	.00	.02	-.03							
UTILITY	-.01	.06*	.05	-.04	.44**	-.03	.02	.10**	.02	.02	.02	.01	-.01	-.04	-.04	.03	-.03	.01	.03	-.03	.00	.00	.05	-.02	-.02						
MATERIAL	.02	.00	.05	-.08*	-.25**	.02	-.10**	-.07*	-.01	-.02	-.11**	-.16**	-.07*	-.08*	.04	-.01	.04	-.04	.03	-.05	-.09**	-.06	.03	-.08**	-.08*	.06					
INDUSTRIAL	.02	.04	.10**	.03	.32**	.14**	.07*	.05	-.01	.01	.04	.07*	.08*	.03	.08*	.02	.09**	.02	.02	.12**	.02	.00	.07*	-.07*	-.07*	.05	-.20**				
FINANCE	-.06	.01	-.07*	-.15**	-.46**	-.06	-.05	.01	.02	-.07*	-.05	.01	-.11**	.01	-.04	-.01	.05	.00	.02	-.02	.02	-.01	.15**	-.08*	-.08*	.05	-.22**	-.19**			
HEALTH	.05	.05	.02	.09**	.34**	-.05	.06*	.02	.02	.02	.04	.05	.06	.01	-.04	.04	-.07*	.04	.03	-.07*	-.12**	-.06	-.11**	-.07*	-.07*	.04	-.18**	-.16**	-.18**		
CONSDIS	.06	.01	.02	.03	-.22**	-.04	.04	.06	.01	-.02	.05	.04	.08*	.06*	-.03	-.05	.02	-.04	.09**	.03	.18**	.01	.07*	-.07*	-.07*	.05	-.18**	-.16**	-.18**	-.15**	
IT	-.07*	.11**	-.14**	.08*	.31**	.01	-.05	-.16**	-.01	.07*	.04	-.04	-.03	-.01	-.07*	-.01	-.14**	.05	-.07*	.01	.03	.15**	-.23**	-.07*	-.06*	.04	-.17**	-.15**	-.17**	-.14**	-.14**
CONSSTAP	.02	.03	.05	.00	-.15**	.01	.05	.10**	-.04	-.02	.04	.03	.02	.02	.08*	.01	-.04	-.02	.03	-.02	.03	.01	.10**	.04	-.04	-.03	.11**	.09**	-.11**	-.09**	-.09**

*Significant at the 0.05 level (2 tailed), ** Significant at the 0.01 level (2 tailed)

5.5 EMPIRICAL RESULTS

Recall that Ullmann's (1985) three-dimensional theoretical framework, the relationship between voluntary employee-related disclosures and employee stakeholder power, strategic posture and economic performance are tested. The results of the regression analyses are shown in Table 5-7 and Table 5-8.

Model 1 in Table 5-7 and Model 2 in Table 5-8 are binary logistic regressions estimated on the sample of 970 companies, consisting of 649 disclosing companies and 321 non-disclosing companies. The dependent variable of these models is the presence of employee-related information disclosure ($EMPD_i$), where the variables associated with management's decision to disclose information relating to their employees is examined.

Model 1 correctly classifies 73.1 per cent of the disclosing and non-disclosing companies with a Nagelkerke R-squared of 0.26 and the model is significant at $p<0.01$. The coefficient of the variable measuring the presence of an employee share ownership scheme ($EMPSHR_i$) is positive as expected and statistically significant with a coefficient of 0.75 (p-value <0.01, Wald = 20.41). Trade union membership ($TRADEUN_i$) is negatively associated with the presence of employee-related disclosure with a coefficient of -0.03 (p-value 0.04, Wald = 2.88). This result is the opposite sign to that expected, which illustrates that more highly unionised companies are less likely to disclose employee-related information in their annual reports than the less-unionised firms. These findings partially support hypothesis one, that stakeholder power, in this case, employee power, encourages companies to disclose information about their employees in the annual report.

Hypothesis two is partially supported in that the corporate governance index is statically significant ($p<0.01$, Wald = 77.87) with a coefficient of 0.40. This positive relation suggests that companies that use recommended corporate governance practices are more likely to disclose employee-related information in their annual report. The acknowledgement of employees in the mission statement is not significant.

Tobin's Q is negatively significant ($p = 0.03$, Wald = 3.41), with a coefficient of -0.01, which is inconsistent with hypothesis three. Return on assets (*ROA_i*) is not significant. Shareholder power (*$BLOCK_i$*) and creditor power (*$LEVERAGE_i$*) are not significant in Model 1, demonstrating that these stakeholders have little influence on the disclosure of employee-related information. Adverse publicity (*$ADVPUBL_i$*) is positively significant ($p = 0.08$, Wald = 2.34) with a coefficient of 0.11, and five of the seven industries are not significant in explaining the decision to disclose employee-related information.

Model 2 correctly classifies 74.5 per cent of all companies with a Nagelkerke R-squared of 0.29 and the model is also significant at $p<0.01$. The presence of an employee share ownership scheme (*$EMPSHR_i$)* is positive as expected and statistically significant with a coefficient of 0.67 (p-value <0.01, Wald = 15.45). Trade union membership *($TRADEUN_i$)* is negatively associated with the presence of employee-related disclosure with a Wald statistic of -0.03 (p-value 0.04, Wald = 3.45). These findings are again partially supportive of hypothesis one.

The corporate governance variables are analysed individually in the second model. The majority of independent directors on the board ($p = 0.05$, Wald = 2.69), number of board meetings ($p = 0.05$, Wald = 2.58), presence of an audit committee ($p<0.01$, Wald = 10.16), presence of a remuneration committee ($p<0.01$, Wald = 8.01), presence of a social responsibility committee ($p = 0.02$, Wald = 4.24) and use of a Big 4 auditor ($p = 0.03$, Wald = 5.69) are all positively statistically significant as expected. Duality of the CEO and chair is negatively related to the presence of employee-related disclosure with a coefficient of -0.37 and a p-value of 0.06 (Wald = 2.44). This result is anticipated, as it is preferable that the CEO is not also the chair.

Present economic performance measured by Tobin's Q is negatively significant ($p = 0.03$, Wald = 3.47) and the accounting-based measure, *ROA,* is not significant. These results are inconsistent with hypothesis three. Past economic performance, measured by the average Tobin's Q and average *ROA* are analysed in separate regressions, and they are found to be not significant in any of the ten models. They are also significantly correlated with present measures of economic performance, therefore are excluded from the remaining results for brevity.

Adverse publicity, shareholder power (*BLOCK*) and creditor power (*LEVERAGE*) are not significant in Model 2, and five of the seven industries are not significant in explaining the decision to disclose employee-related information.

The log of total assets, which was initially used as a proxy for size, is highly significant ($p<0.01$) in all models. This variable has been excluded from the models due to multicollinearity concerns with the corporate governance index, various individual corporate governance variables and the adverse publicity variable. The exclusion of *LASSETS* significantly reduces the R-squared in all ten models by between 5 and 10 per cent. An alternative measure of size, employee concentration ($EMPCON_i$), is applied to all of the models as a control variable. It is not significant in either Models 1 or 2. Other non-significant control variables relate to the materials, industrial and consumer staples industries. These are also excluded from the reported analysis for brevity.

The results for Models 3 and 4 using ordinary least squares regressions are estimated on the same sample of 970 publicly listed Australian companies as in Models 1 and 2. The number of sentences of employee-related disclosure in the 2004 annual report is the dependent variable in these two models. Non-disclosing companies are included in these models and recorded with a zero sentence count.

Model 3, which applies the corporate governance score, is significant with an adjusted R-squared of 0.25 ($p<0.01$). The results for this model indicate the employee share ownership scheme variable (*$EMPSHR_i$)* is positive as expected and statistically significant with a coefficient of 2.46 (p = 0.02) in support of hypothesis 1A. The trade union membership variable (*$TRADEUN_i$)* is also significant with a coefficient of -0.23 (p = 0.02), but negatively related to the number of sentences of employee-related disclosure, which is opposite to the predicted sign. This suggests that industries with a greater proportion of unionisation tend to disclose less employee-related information than those industries with proportionally less trade union membership. A possible explanation for this result is that more highly unionised industries receive employee-related information through communication channels other than the annual report.

The presence of employee-related information in the company's mission statement is found to be significant at $p<0.01$ with a coefficient of 5.76. The corporate governance index also confirms hypothesis 2A, with a coefficient of 3.01 ($p<0.01$). This suggests that companies with a more active strategic posture towards employee issues disclose a greater amount of employee-related information than companies displaying a less active posture.

Hypothesis 3A is also supported in Model 3 with both ROA_i (p = 0.01) and $TOBINSQ_i$ (p = 0.05) positively significant, indicating companies with higher current economic performance disclose more information relating to their employees. Industry classification variables (specifically $UTILITY_i$, $p<0.01$, $HEALTH_i$, p = 0.07, $CONSDIS_i$, p = 0.07 and IT_i, p = 0.10) are significant at less than the 10 per cent level of significance. Similar to the first two models, neither shareholder power nor creditor power are significant in explaining the quantity of employee-related disclosure in the annual report. Adverse publicity is positively significant with a coefficient of 0.88 ($p<0.01$) illustrating that companies with more adverse publicity in the current year disclose a greater amount of employee-related information in their annual report. This is consistent with media agenda setting theory.

Model 4 is statistically significant with an R-squared of 0.29 ($p<0.01$). Both the presence of an employee share ownership scheme (*$EMPSHR_i$)* and trade union membership (*$TRADEUN_i$)*

are significant (p = 0.02). $EMPSHR_i$ is positively related to employee-related disclosures with a coefficient of 3.34 and $TRADEUN_i$ is negatively related to information about employees with a coefficient of -0.21. When analysing the company's strategic posture, the presence of employee information in the mission statement is statistically significant with a coefficient of 4.60 ($p<0.01$). The individual corporate governance variables, notably the number of directors, majority of independent directors, presence of a nomination committee, presence of a social responsibility committee and choice of a high quality external auditor are significant in explaining the number of sentences of disclosure (at less than the 1 per cent level of significance) in support of hypothesis 2A. The number of board meetings is also statistically significant (p = 0.06). These variables suggest that the board of directors and other key committees are associated with the level of employee-related disclosures in their annual reports.

As in Model 3, return on assets ($p<0.01$), Tobin's Q (p = 0.04), adverse publicity ($p<0.01$), and industry variables, specifically *UTILITY* ($p<0.01$) and *HEALTH* (p = 0.03) are positively statistically significant, while *CONSDIS* (p = 0.10) is negatively significant. Employee concentration is positive and significant as predicted with a coefficient of 0.05 (p = 0.03). This suggests that the greater the market capitalisation of the company in relation to its employees, the greater the importance for the company to meet their demands. It is also assumed that the greater number of employees in a company, the greater the amount of employee-related information is disclosed in the annual report.

The second ordinary least squares regression for the fifth and sixth models examine only those companies that made employee-related disclosures in their 2004 annual report. Therefore, these models are estimated on the sample of 649 disclosing companies only. The dependent variable for these models is the number of sentences as used in Models 3 and 4. Model 5 uses the corporate governance index score and Model 6 applies the individual corporate governance characteristics as in previous models. Again, any non-significant control variables relating to industry classification were excluded from the reported analysis.

Model 5 tests the quantity of employee-related information and is significant with an adjusted R-squared of 0.24 ($p<0.01$). Hypothesis one is not supported in that stakeholder power does not provide significant explanatory power other than the proportion of trade union membership ($p = 0.05$, coefficient = -0.24), which is negatively associated with the level of employee-related disclosure.

The second hypothesis is supported at the 1 per cent level of significance for both the mission statement (coefficient = 6.92, $t = 3.79$) and corporate governance index (coefficient = 3.47, $t = 8.17$) variables.

The results of Model 6 (R-squared = 0.29, $p<0.01$) indicate that the number of directors, independence of the directors on the board, presence of a nomination committee and presence of a social responsibility committee are significant in explaining the number of sentences of disclosure ($p<0.01$) in support of hypothesis two. The choice of a high quality external auditor is also significant ($p = 0.02$) as it was in Model 3. Tobin's Q ($p = 0.02$), industry classification, specifically $UTILITY_i$ ($p<0.01$), $HEALTH_i$ ($p = 0.04$) and $CONSDIS_i$ ($p = 0.09$), and adverse publicity ($p = 0.09$) are also significant in explaining the number of sentences of employee-related disclosure.

The composition of the board appears to be an important influence. Research finds that boards that meet frequently are more likely to perform their duties thoroughly and effectively (Lipton and Lorsch, 1992; Kent and Stewart, 2008). The percentage of independent directors on the board is another important explanatory variable in the regression model for which the coefficient is positive (4.42) and statistically significant at <0.01 level. The result thus suggests that firms with a higher proportion of independent directors disclose more voluntary employee-related information.

From the results of the first six models, the industries that appear to be related to the level of disclosure are the Utility, Health and Consumer Discretionary industries. This outcome is expected based upon findings from prior literature and statistical analysis conducted throughout this study (Deegan et al., 2000). The Materials, Industrial and Consumer Staples industries are excluded from all of the models as they were either found not to be significant or are highly correlated with other variables. The final control variable shown to be significant in this model is size, measured by employee concentration, and is generally related to increased disclosures. Many studies in this field indicate that size is a significant factor in a company's decision to make social responsibility disclosures and this result confirms this to be true.

Models 7 and 8 are ordinary least square regressions estimated on the total sample of 970 companies. The dependent variable of these models is the quality of employee-related information ($QUALEMPD_i$), where the quality index based on the GRI specified by the number of categories of employee-related information disclosed in the annual report is examined. The R-squared of Model 7 is 0.29 and is significant at $p < 0.01$.

The coefficients of the variables employee share ownership scheme ($EMPSHR_i$, $p<0.01$) and trade union membership ($TRADEUN_i$, $p = 0.05$) are statistically significant with a t-statistic of 4.27 and -1.68 respectively. Trade union membership is expected to be positive, but as illustrated in the earlier models, it appears to be negatively associated with the dependent variable quality of employee-related disclosure ($QUALEMPD_i$). Employee concentration is not significant ($p = 0.38$), meaning that the number of employees in relation to the market capitalisation is not associated with the quality of the employee-related information disclosed. Shareholder power and creditor power are not significant, consistent with previous reported models. This potentially indicates that shareholder and creditors are not key stakeholder groups that demand employee-related information in annual reports.

The second hypothesis (2B) is supported in both Models 7 and 8 with significant results for the mission statement ($p<0.01$) and corporate governance index ($p<0.01$). With respect to the third hypothesis (3B), economic performance measured by return on assets (*ROA_i*) is statistically significant at the 5 per cent confidence interval. The models that measured the quantity of disclosure found that Tobin's Q (*$TOBINSQ_i$*) is significant as a measure of economic performance, however when measuring the quality of disclosure, return on assets (*ROA_i*) is significant. Significant control variables include adverse publicity ($p<0.01$) and all industry variables except the *$ENERGY_i$* and *$HEALTH_i$* industries ($p<0.05$).

Model 8 is significant ($p<0.01$) with an R-squared of 0.32. All variables significant in Model 7 are also significant in Model 8. All individual corporate governance variables are significant at the 5 per cent level of significance, indicating an association between ASX recommended good corporate governance practices and the quality of employee-related information in the annual report.

The results of Models 9 and 10 illustrate the association between the quality of employee-related disclosure and the experimental variables, and the control variables for only the disclosing companies. The R-square for Model 9 is 0.23 ($p<0.01$) and for Model 10, 0.27 ($p<0.01$) respectively.

The significant variable relating to stakeholder power in these two models is the presence of an employee share ownership scheme ($p = 0.03$, $p = 0.04$ respectively). This provides evidence that a company discloses higher quality employee-related information when the company's employees have greater power.

The second hypothesis relating to a company's strategic posture is again supported by the significance of the mission statement and corporate governance variables, both significant at the 1 per cent level ($t = 3.84$ and 7.01 respectively). This result confirms that companies with a more active strategic posture disclose higher quality information about their employees, consistent with the GRI index (2002).

The most significant corporate governance variables in Model 10 are board size ($p<0.01$), duality ($p = 0.04$), the presence of a nomination committee ($p<0.01$) and the presence of a social responsibility committee ($p<0.01$). The coefficient for board size is 0.14 ($p<0.01$) and positive. This result suggests that larger boards are associated with better quality voluntary employee-related information than smaller boards.

The study suggests that companies with higher measures using the market-based measure Tobin's Q ($TOBINSQ_i$, $p = 0.02$) tend to have higher quality employee-related disclosures. This supports the third hypothesis, 3B.

With regard to control variables, Model 9 suggests that companies with more employees per market capital, or companies that have had adverse publicity about their employees in the prior 12 months ($p<0.01$), tend to have higher quality employee-related disclosures. Also, all industries other than the $TELECOM_i$ and $HEALTH_i$ industries are significant at the 5 per cent level. Model 10 suggests that companies with higher economic performance as denoted by ROA_i ($p = 0.03$) disclose more quality employee-related information than companies with lower levels of economic performance, also in support of the third hypothesis.

TABLE 5-7 LOGISTIC AND OLS REGRESSIONS OF CORPORATE GOVERNANCE SCORE

	DEPENDENT VARIABLES				
	EMPD	***QUANTEMPD***		***QUALEMPD***	
	All Companies	**All Companies**	**Disclosing Only**	**All Companies**	**Disclosing Only**
	(1)[+]	**(3)**	**(5)**	**(7)**	**(9)**
Intercept	-.42	-.70	-.64	.61***	1.56***
	(1.11)	(-.26)	(-.17)	(2.44)	(5.41)
EMPSHR (+)	.75***	2.46**	1.49	.44***	.22**
	(20.41)	(2.17)	(.94)	(4.27)	(1.88)
TRADEUN (+)	-.03**	-.23**	-.24**	-.02**	<.01
	(2.88)	(-2.17)	(-1.65)	(-1.68)	(-.75)
EMPMIS (+)	.15	5.76***	6.92***	.48***	.52***
	(.49)	(4.27)	(3.79)	(3.89)	(3.84)
CORPGOV (+)	.40***	3.01***	3.47***	.31***	.22***
	(77.87)	(10.52)	(8.17)	(11.90)	(7.01)
ROA (+)	.07	1.35***	1.44	.09**	.19**
	(.58)	(2.22)	(1.13)	(1.66)	(1.99)
TOBINSQ (+)	-.01**	.04**	.12**	<.01	<.01
	(3.41)	(1.61)	(2.12)	(-.81)	(-.58)
ADVPUBL (+)	.11*	.88***	.70***	.06***	.04***
	(2.34)	(5.12)	(3.48)	(3.59)	(2.42)
SIZE (+)	<.01	.04	.04	<.01	<.01
	(.16)	(-0.26)	(1.13)	(.31)	(-.09)
BLOCK (-/+)	-.03	<.01	.02	<.01	<.01
	(.98)	(-.26)	(.45)	(-.29)	(.81)
LEVERAGE (+)	.04	.41	.41	.05	.08
	(.38)	(.96)	(.34)	(1.22)	(.87)
TELECOM	-1.06**	1.31	8.19*	-.77***	-.40
	(5.58)	(.41)	(1.64)	(-2.61)	(-1.09)
UTILITY	.45	17.73***	26.54***	1.12**	1.53***
	(.32)	(3.18)	(3.36)	(2.19)	(2.61)
FINANCE	-.43*	-1.50	-1.43	-.49***	-.55***
	(2.96)	(-.90)	(-.59)	(-3.19)	(-3.03)
HEALTH	.22	3.41*	4.38*	-.13	-.28
	(.55)	(1.80)	(1.70)	(-.76)	(-1.48)
CONSDIS	<-.01	-3.15*	-4.70**	-.37**	-.58***
	(.00)	(-1.81)	(-2.00)	(-2.31)	(-3.33)
IT	-.30	-3.17*	-4.50*	-.71***	-.94***
	(.27)	(-1.67)	(-1.64)	(-4.09)	(-4.59)
R^2	.266#	.245	.236	.286	.227
Correct classification	73.1%	-	-	-	-
N = no of companies	970	970	649	970	649
Model	p<0.001	p<0.001	p<0.001	p<0.001	p<0.001

+ Binary Logistic Regression # Nagelkerke R-squared

Dependent variables are disclosures scores as indicated by the columns. The expected signs for the variables are presented in brackets. Coefficients estimated by OLS regression are presented on the first line for each variable. The significance levels (p-values) are based on Chi-squared statistics (Wald statistic is presented in parentheses). ***, **, * represent significance levels (two-tailed) at 1%, 5% and 10%, respectively.

$EMPD_i$= 1 if the company discloses employee-related information, and 0 otherwise; $QUANTEMPD_i$ = number of sentences of employee-related disclosure; $QUALEMPD_i$ = the number of different types of employee categories disclosed; $EMPSHR_i$= 1 if the company has a share ownership scheme in 2004, and 0 otherwise; $TRADEUN_i$ = 1 if the company is in a highly unionised industry, and 0 otherwise; $EMPMIS_i$ = 1 if the company discloses employee-related information in the mission statement, and 0 otherwise; $CORPGOV_i$ = score out of nine, based on corporate governance variables; $NDIR_i$ = number of directors on the board; $BRDINDEP_i$ = 1 if majority of independent directors on the board, and 0 otherwise; $DUAL_i$ = 1 if the CEO is also the chair, and 0 otherwise; $BRDMEET_i$ = number of board meetings during 2004; $AUDITOR_i$ = 1 if a Big Four auditor is used, and 0 otherwise; $AUDITCOM_i$ = 1 if the company has an audit committee, and 0 otherwise; $REMCOM_i$ = 1 if the company has a remuneration committee, and 0 otherwise; $NOMCOM_i$ = 1 if the company has a nomination committee, and 0 otherwise; $SOCCOM_i$ = 1 if the company has a social committee, and 0 otherwise; $TOBINSQ_i$= market value of the company plus preference shares plus total debt divided by total assets; ROA_i= return of assets at balance date; $ADVPUBL_i$ = number of adverse media publicities in the year prior to 30th June 2004; $SIZE_i$ = percentage of employees to market capitalisation; $BLOCK_i$= percentage of outstanding ordinary shares held by shareholders who own 5% or more of the shares; $LEVERAGE_i$ = total debt divided by total assets in 2004; $MATERIAL_i$= 1 if the company is in the materials industry, and 0 otherwise; $UTILITY_i$ = 1 if the company is in the utility industry, and 0 otherwise; $TELECOM_i$ = 1 if the company is in the telecommunications industry, and 0 otherwise; $INDUSTRIAL_i$ = 1 if the company is in the industrial industry, and 0 otherwise; $HEALTH_i$= 1 if the company is in the healthcare industry, and 0 otherwise; $CONSDIS_i$= 1 if the company is in the consumer discretionary industry, and 0 otherwise; IT_i = 1 if the company is in the information technology industry, and 0 otherwise. $FINANCE_i$= 1 if the company is either a bank or an insurance company, and 0 otherwise. $CONSSTAP_i$ = 1 if the company is in the consumer staples industry, and 0 otherwise.

TABLE 5-8 LOGISTIC AND OLS REGRESSIONS OF INDIVIDUAL CORPORATE GOVERNANCE VARIABLES

	DEPENDENT VARIABLES				
	EMPD	***QUANTEMPD***		***QUALEMPD***	
	All Companies	**All Companies**	**Disclosing Only**	**All Companies**	**Disclosing Only**
	(2)+	**(4)**	**(6)**	**(8)**	**(10)**
Intercept	-.68*	-5.42*	-5.72	.28	1.31***
	(1.98)	(-1.75)	(-1.24)	(.97)	(3.81)
EMPSHR (+)	.67***	3.34**	1.47	.39***	.21**
	(15.45)	(2.08)	(.94)	(3.80)	(1.80)
TRADEUN (+)	-.03**	-.21**	-.20*	-.02**	<.01
	(3.45)	(-2.05)	(-1.39)	(-1.73)	(-.59)
EMPMIS (+)	.11	4.60***	5.57***	.39***	.42***
	(.25)	(3.47)	(3.10)	(3.22)	(3.15)
NDIR (+)	.08	1.82***	2.15***	.14***	.14***
	(1.47)	(4.91)	(4.28)	(4.20)	(3.81)
BRDINDEP (+)	.26**	3.19***	4.42***	.15*	.10
	(2.69)	(3.03)	(2.92)	(1.57)	(.91)
DUAL (-)	-.37*	-1.12	-.61	-.33***	-.34**
	(2.44)	(-.69)	(-.24)	(-2.19)	(-1.77)
BRDMEET (+)	.03**	.16**	.13	.02**	<.01
	(2.58)	(1.59)	(.89)	(1.88)	(.50)
AUDITCOM (+)	.70***	.52	.36	.33***	.16
	(10.16)	(.33)	(.13)	(2.26)	(.77)
REMCOM (+)	.56***	-.61	-2.01	.21**	-.03
	(8.01)	(-.46)	(-1.09)	(1.70)	(-.22)
NOMCOM (+)	.25	6.66***	7.34***	.46***	.48***
	(1.23)	(5.04)	(4.27)	(3.82)	(3.76)
SOCCOM (+)	.72**	7.80***	7.47***	.73***	.55***
	(4.24)	(4.62)	(3.61)	(4.71)	(3.59)
AUDITOR (+)	.40***	2.50***	3.37**	.20**	.07
	(5.69)	(2.22)	(2.09)	(1.91)	(.54)
ROA (+)	.06	1.31***	1.57	.09*	.18**
	(.50)	(2.22)	(1.26)	(1.58)	(1.89)
TOBINSQ (+)	<.01**	.04**	.12***	<.01	<.01
	(3.47)	(1.72)	(2.09)	(-.72)	(-.49)
ADVPUBL (+)	.08	.49***	.29*	.03**	.01
	(1.50)	(2.71)	(1.36)	(1.70)	(.62)
SIZE (+)	<.01	.05**	.05*	<.01	<.01
	(.16)	(1.87)	(1.53)	(.56)	(.31)
BLOCK (-/+)	<.01	<.01	.02	<.01	<.01
	(.80)	(-.05)	(.59)	(-.31)	(.74)
LEVERAGE (+)	.03	.25	.29	.03	.07
	(.23)	(.59)	(.25)	(.87)	(.80)
TELECOM	-1.10**	1.78	6.73	-.72***	-.55
	(5.84)	(.56)	(1.38)	(-2.50)	(-1.51)
UTILITY	.58	16.45***	22.73***	1.11**	1.31**
	(.50)	(3.00)	(2.90)	(2.20)	(2.24)
FINANCE	-.47*	-1.80	-1.69	-.51***	-.58***
	(3.32)	(-1.09)	(-.70)	(-3.38)	(-3.23)
HEALTH	.27	4.16**	5.11**	-.06	-.23
	(.83)	(2.24)	(2.02)	(-.33)	(-1.20)
CONSDIS	-.02	-2.79*	-3.91*	-.36**	-.54***
	(.01)	(-1.63)	(-1.68)	(-2.26)	(-3.14)
IT	-.22	-2.02	-3.44	-.58***	-.83***
	(.63)	(-1.08)	(-1.27)	(-3.37)	(-4.12)
R^2	.287#	.289	.285	.322	.272
Correct classification	74.5%	-	-	-	-
N = no of companies	970	970	649	970	649
Model	p<0.001	p<0.001	p<0.001	p<0.001	p<0.001

+ Binary Logistic Regression
# Nagelkerke R-squared

Dependent variables are disclosures scores as indicated by the columns. The expected signs for the variables are presented in brackets. Coefficients estimated by OLS regressions are shown on the first line for each variable. The significance levels (p-values) are based on t-statistics (presented in parentheses). ***, **, * represent significance levels (two-tailed) at 1%, 5% and 10%, respectively.

TABLE 5-9 SUMMARY OF RESULTS

	Dependent Variable	Quantity/Quality	Sample	Corporate Governance Measurement	Hypothesis Result
Model 1	Presence of employee disclosure *(EMPDISC)*	Quantity	All companies	Corporate governance index	H1a: Partially supported H2a: Partially supported H3a: Partially supported
Model 2	Presence of employee disclosure *(EMPDISC)*	Quantity	All companies	Individual corporate governance variables	H1a: Partially supported H2a: Partially supported H3a: Partially supported
Model 3	Number of sentences of employee disclosure *(NOSENT)*	Quantity	All companies	Corporate governance index	H1a: Supported H2a: Supported H3a: Supported
Model 4	Number of sentences of employee disclosure *(NOSENT)*	Quantity	All companies	Individual corporate governance variables	H1a: Supported H2a: Supported H3a: Supported
Model 5	Number of sentences of employee disclosure *(NOSENT)*	Quantity	Disclosing only companies	Corporate governance index	H1a: Partially supported H2a: Supported H3a: Partially supported
Model 6	Number of sentences of employee disclosure *(NOSENT)*	Quantity	Disclosing only companies	Individual corporate governance variables	H1a: Partially supported H2a: Supported H3a: Partially supported
Model 7	Number of employee categories disclosed *(NOEMPC)*	Quality	All companies	Corporate governance index	H1b: Partially supported H2b: Supported H3b: Partially supported
Model 8	Number of employee categories disclosed *(NOEMPC)*	Quality	All companies	Individual corporate governance variables	H1b: Partially supported H2b: Supported H3b: Partially supported
Model 9	Number of employee categories disclosed *(NOEMPC)*	Quality	Disclosing only companies	Corporate governance index	H1b: Partially supported H2b: Supported H3b: Partially supported
Model 10	Number of employee categories disclosed *(NOEMPC)*	Quality	Disclosing only companies	Individual corporate governance variables	H1b: Partially supported H2b: Supported H3b: Partially supported

Table 5-10 illustrates that when analysing the corporate governance variables relating to the presence of employee-related information, the presence of an audit committee, presence of a remuneration committee and choice of auditor are all important corporate governance practices. Model 8 reports the highest R-squared out of the ten models, and it shows that every corporate governance variable is significant at the 10 per cent level of significance or less. Five of the nine corporate governance variables in this model are significant at less than 1 per cent.

These propositions are confirmed with the acknowledgement of employees in the companies mission statement (*EMPMIS)* and the corporate governance index score (*CORPGOV)* being significant at less than 1 per cent in each of the models measuring quantity and quality of employee-related information.

TABLE 5-10 LEVEL OF SIGNIFICANCE FOR INDIVIDUAL CORPORATE GOVERNANCE VARIABLES

	EMPD	***QUANTEMPD***		***QUALEMPD***	
	All Companies	**All Companies**	**Disclosing Only**	**All Companies**	**Disclosing Only**
	Model 2	**Model 4**	**Model 6**	**Model 8**	**Model 10**
R-squared	28.7%	28.9%	28.5%	32.2%	27.2%
NDIR	n/s	1%	1%	1%	1%
BRDINDEP	5%	1%	1%	10%	n/s
DUAL	10%	n/s	n/s	1%	5%
BRDMEET	5%	5%	n/s	5%	n/s
AUDITCOM	1%	n/s	n/s	1%	n/s
REMCOM	1%	n/s	n/s	5%	n/s
NOMCOM	n/s	1%	1%	1%	1%
SOCCOM	5%	1%	1%	1%	1%
AUDITOR	1%	1%	5%	5%	n/s
1% significance	3	5	4	5	3
5% significance	3	1	1	3	1
10% significance	1	0	0	1	0
Not significant	2	3	4	0	5

n/s = not significant

5.6 ROBUSTNESS TESTS

Econometric issues such as normality of the error term, multicollinearity, autocorrelation and heteroskedasticity are tested, and appropriate remedies are employed.

Two occasions where parametric testing methods are not appropriate is where the data is not normally distributed or is of a classificatory type (Siegel 1956). There are two ways of establishing the normality of a data distribution. These are to examine the degree of skewness and the extent to which kurtosis is present (Foster, 1986) and to plot the data on a graph. Skewness indicates the extent to which the distribution of the data varies from a normal distribution. Kurtosis is a measure of the extent to which a distribution is more or less fat-tailed than would typically be expected for a normal distribution (Foster, 1986).

In this study, the possible effect of outliers was tested by omitting extreme values and winsorising extreme values for some variables. In all cases, the reported results are robust to these changes in the models.

Since this study is concerned with the individual effect of the explanatory variables on the extent of voluntary employee-related disclosure, the presence of multicollinearity is also tested using the correlation matrix. The Pearson correlation analysis reported in Tables 5-6A and 5-6B suggests that there were no correlation coefficients greater than the threshold level of 0.80[16].

The Variance Inflation Factor (VIF), another effective method of testing the multicollinearity in the regression model is also applied. The VIF results of all the independent variables are below 2.0 and 2.5 except for firm size, proxied by log of total assets (*LASSETS*), which exceeds the threshold VIF value of 10. Both correlation and VIF results support the presence of multicollinearity in this control variable. The regression tests are conducted by

[16] As a rule of thumb, correlation between explanatory variables in excess of 0.8 suggests that multicollinearity is a serious problem (Gujarati, 1995).

excluding this variable from the models to reduce the problem of multicollinearity. The existence of multicollinearity in the log of assets variable provided a threat to the results obtained in the regression equation. Consequently, the log of assets control variable is excluded from all of the regression models in this study. For cross-sectional studies, serial correlation issues are checked via Durbin-Watson statistics.

Heteroskedasticity is determined via the White heteroskedastic test. Autocorrelation of errors is corrected via the introduction of autoregressive processes or rearranging the ordering of observations. The data had neither heteroskedasticity problems nor autocorrelation of errors.

Several additional tests are performed to confirm the robustness of the results. Some companies in the sample do not differentiate between independent and non-executive directors. Similar results are obtained when models are analysed with directors identified as independent and those identified as non-executive. Additionally, alternative measures of performance are used including return on equity and net profit after tax, again with no material change to the reported results.

5.7 SENSITIVITY ANALYSIS

Numerous measures are used in the models to determine stakeholder power. Two measures of employee power are adopted and these are the presence of an employee ownership scheme and level of industry trade union membership. These measures provide different elements of employee power, which is important given they are the main stakeholders of interest in the study.

Alternative measures of trade union membership are tested in this study. Firstly, trade union membership is measured using absolute values of proportionate membership to the trade unions by industry membership (see Appendix 7). The second proxy applied, $TRADEUND_i$ is a dichotomous variable constructed from the continuous variable. It ranks the company as either belonging to a highly unionised industry (=1) or a poorly unionised industry (=0), with the average level of unionisation applied as the cut-off point. The second proxy is not significant in any of the models and therefore, the first proxy $TRADEUN_i$ is applied. This variable is found to be significant in eight of the ten models.

Shareholder power (denoted as $BLOCK_i$ in the models) does not have significant results in any of the ten models. Initially, block holders are measured as the proportion of shareholders who own 5 per cent or more of the shares in the company. This variable is also tested using 10 and 20 per cent cut offs, rather than 5 per cent. These modifications to shareholder power do not modify the results of any of the models. Finally, creditor power is measured using two proxies, debt to assets ($LEVERAGE_i$) and debt to equity. Neither are significant in any of the models.

Strategic posture is measured using two proxies. Firstly, the acknowledgement of the employees in the mission statement, and secondly, the company's corporate governance practices. All five models are analysed two ways. First, as illustrated in Models 1, 3, 5, 7 and 9, the corporate governance index score is applied. Secondly, as illustrated in Models 2, 4, 6, 8, and 10, the individual corporate governance characteristics are applied to determine their individual contribution. The existence of an audit committee, remuneration committee, nomination committee and social committee are tested, but the specific characteristics of each committee are not examined in this study. Other indicators of committee effectiveness are measured by the number of directors assigned to the committee and the number of committee meetings held during the year. These additional variables are not found to be significant and are excluded from the study. It is not expected that the size of the committee or the frequency of committee meetings have any impact on the quantity or quality of employee-related disclosures. Therefore, only the presence of each of these committees is reported in the models.

Return on assets (ROA_i) and Tobin's Q ($TOBINSQ_i$) are the two proxies used for economic performance. The third element of Ullmann's stakeholder framework suggests past and present economic performance be applied as explanatory variables, not just the current year. Therefore, an average is taken over three years (2002-2004) for both ROA and Tobin's Q to see whether past economic performance is significant in explaining the quantity and quality of employee-related disclosures. The results are not significant. An alternative measure of past economic performance, measuring just the year prior to 2004 (2003) also shows non-significant results. Therefore, current rather than past economic performance is a better measure for explaining the quantity and quality of employee-related information. Other measures such as return on equity and net profit after tax are also applied as alternative measures, however they do not have any additional explanatory power.

Three measures for company size are applied to the models. Firstly, log of total assets ($LASSETS_i$) is applied, consistent with past research on corporate social responsibility. This variable is statistically significant in all models at $p<0.01$, however it is highly correlated with numerous other variables in the models. Therefore, alternative measures of size are tested. The number of employees is included in each of the models and is significant in three of the models (relating to the quantity of employee-related disclosures). Finally, employee concentration ($EMPCON_i$) is included in each of the models, and although only significant in two of the ten models, it satisfies two of the three criteria set out in the GRI index and the Corporations Act 2001 as an appropriate measure for size.

The industry classification variables are all initially included in each of the ten models. The $MATERIALS_i$, $INDUSTRIAL_i$ and $CONSSTAP_i$ variables are not significant in any of the models and are not reported. The results are robust to these changes. Adverse publicity is reported to be significant in eight out of the ten models, revealing the importance of this variable on the level and quality of employee-related disclosures.

An additional model was run with the dependent variable $NATUREMPD_i$, measuring the nature of the employee-related information disclosed. Some 98 per cent of the information disclosed by companies in 2004 about their employees is of a positive nature. This model, due to the extremely high prevalence of positive information disclosure, does not add any explanatory power to the study and is not reported in the analysis.

This result, however, is consistent with prior research illustrating that companies disclose predominantly positive information in their annual reports. As noted earlier, legitimacy is considered to be a resource on which a company is dependent for survival (Dowling and Pfeffer, 1975). However, it is a source that the company also can impact or manipulate (Woodward et al., 2001). The disclosure of positive information in the annual report does not indicate that companies do not possess any adverse publicity regarding their operations. It is often difficult to comprehend that with a given level of negative publicity, a company can disclose any positive information at all. It appears that many companies with moderate to high levels of adverse publicity focus on disclosing information about the implementation or improvement of health and safety agendas, or other precautionary systems within their company, to minimise the impact of future adverse publicity. These disclosures frequently compensate perceptions of the company's social responsibility activities.

5.8 CHAPTER SUMMARY

Empirical evidence in this study seeks to provide support for Ullmann's stakeholder framework and suggests superior corporate governance practices as explanations for the voluntary disclosure of employee-related information in annual reports by Australian companies (Kent and Zunker, 2010). Results of the regression analyses provide evidence of a positive relationship between Ullmann's three-dimensional framework (stakeholder power, strategic posture and economic performance) and the level of employee-related disclosure. They also provide evidence of a positive relationship between Ullmann's framework and the quality of employee-related disclosure.

Other variables shown to have significant influence on the quantity and quality of employee-related disclosure are the number of adverse publicity articles in Australian and New Zealand newspapers, employee concentration, industry classification, number of board directors, proportion of independent directors on the board, number of board meetings per year, lack of duality of CEO and Chair, existence of an audit committee, existence of a nomination committee, existence of a social responsibility committee and choice of external auditor. This indicates that the board of directors play a key role in assuring high quality reporting and improving disclosure and accountability of the company to society. These company attributes signal good corporate governance practices. Thus, threat to legitimacy and good corporate governance practice both contribute to the voluntary employee-related disclosures in annual reports in Australia.

Chapter 6

Conclusions and Discussion

6.1 Introduction

The purpose of this chapter is to summarise the findings, discuss theoretical, research, and managerial implications of the results, identify limitations in the research, and provide recommendations for future research.

6.2 Discussion

The objective of this research is to investigate the application of Ullmann's three-dimensional stakeholder theory in explaining the quantity and quality of employee-related disclosures in company's annual reports. This study provides a theoretical framework that is supportive of and improves existing research in this area, and finds empirical verification for this framework. The research asks the question: Why do Australian publicly listed companies voluntarily disclose employee-related information in their annual reports?

Voluntary disclosures are expected to decrease the "information asymmetry" between managers and other stakeholders, and supply information about the long-term growth and success of the company, which may concern various stakeholder groups (Abhayawansa and Abeysekera, 2008; Akhtaruddin et al., 2009; Bassett et al., 2007; Boesso and Kumar, 2007; Coff, 1997).

The first contribution of the study is to extend corporate social responsibility accounting research by focusing on employee-related disclosures for all publicly listed companies in Australia with a 30th June 2004 balance date. The frequency, content and amount of disclosure found in annual reports are associated with the importance companies place on human resources.

This is evident with the significance of the stakeholder variables in each of the ten models, specifically the proxies for employee power, strategic posture and economic performance.

With limited legal and professional requirements existing in Australia mandating social disclosures in annual reports (Deegan, 2000; Waddock and Smith, 2000; Whitehouse, 2003), it is interesting to note that 67 per cent of Australian listed companies in the sample are carrying out employee-related disclosures on a voluntary basis. This study, in accordance with former studies, indicate that Australian companies are continuing to provide voluntary social information within their annual reports and the amount of disclosure is increasing over time (Brown and Deegan, 1998; Tilt, 2004; Trotman and Bradley, 1981).

Secondly, the study provides descriptive material on the quantity and quality of voluntary employee-related disclosures in annual reports for Australian companies. Descriptive statistics on employee numbers, adverse publicity and industry classification are also provided. The results reveal that the Consumer Discretionary industry has the highest proportion of companies that disclose employee-related information, with the Telecommunications industry having the least number of companies making employee-related disclosures.

Understanding the influences on voluntary employee-related disclosures can be useful in annual report and financial statement analysis by allowing the users of this information to make informed judgments as to the reliability of the information produced. The information collected in this study demonstrates that a large number of Australian listed companies are disclosing employee-related information in their annual report. Although some companies only disclose a few sentences, there are many companies that are allocating entire sections of their annual report to their employees and social responsibility activities.

The results of this study will assist regulators when considering disclosure regulations, by centring their attention on the perceived inadequacies in the current social reporting framework.

The need to regulate employee-related disclosure is unnecessary if companies are already providing high quality disclosures voluntarily (Eng and Mak, 2003; Kent and Chan, 2009). From this research, most companies can improve their disclosure practices relating to employee information in annual reports equally in the quantity and quality of the information provided.

Voluntary disclosures about a company's employees consist of predominantly positive news, with only 2 per cent of disclosures discussing negative information associated with the company's employees. Examples associated with negative employee-related disclosures include disclosing statistics about accidents involving employees, reporting on strikes, industrial action negotiations, losses in time and productivity of staff, poor working conditions, closing down of any part of the company, or staff redundancies.[17]

By incorporating disclosure practices from the Global Reporting Initiative (2002), companies reporting numerous categories of employee-related information ensure they have thorough and high quality exposure of social responsibility practices. The GRI Guidelines have shown its global acceptance as a standard for reporting corporate social responsibility practices given that it helps companies to decide on what to report and how to report the corporate social responsibility information. Companies that produce these types of voluntary disclosures within their annual report have chosen to differentiate themselves by enhancing the amount of corporate information provided to their stakeholders. Effective voluntary disclosures can provide more transparency and understanding about the company to investors, creditors, and other interested parties. Stakeholders use this information to better understand a company's strategy and provide them with the necessary tools to take advantage of future prospects, and minimise the level of risk associated with those decisions. It is likely to assist them in determining critical success factors that are imperative to the company's accomplishment of goals, understand the competitive environment which the company operates in and the company's decision making framework.

[17] Refer to Appendix 5 for a list of examples of employee disclosures found in the annual reports of companies in this study.

From a social responsibility perspective, these stakeholders want to see that the company is taking steps to ensure sustainable results now and into the future (Steering Committee Report, 2001).

Explanations were investigated for companies that voluntarily disclosed information about their employees in their annual reports. This study proposed three explanations for the disclosure of this information in Australia. On the premise of Ullmann's stakeholder theory, it was hypothesised that increased stakeholder power, an active strategic posture and higher past or present economic performance encourages them to disclose more information about their employees in their annual report. Second, it was proposed that companies with increased stakeholder power, an active strategic posture, and higher economic performance disclose higher quality information about their employees than those with weaker structures.

The results show that employee share ownership schemes provided by companies empowers employees as stakeholders (Ullmann, 1985) providing incentives for employees to purchase shares. Companies introduce share ownership plans in the expectation that ownership aligns employee and employer objectives to increase productivity and profits. Surveys indicate that many employees want some form of ownership in the company where they work and it should be an incentive to increase their loyalty and willingness to work diligently for their employer. The financial incentives for share ownership are greater when companies subsidise the purchase of shares through a share ownership plan makes (Bryson and Freeman, 2009). Research also confirms that employee ownership leads to increased firm productivity, profitability, and longevity. Additionally, evidence indicates that combining employee ownership with increased employee participation is likely to generate large returns on investment (Freeman, 2007).

This study has provided evidence on the positive relationship between employee share ownership as a proxy for employee stakeholder power in relation to a company's propensity to disclose employee-related information. Further, this study finds employee share ownership is associated with the quality of that information. Hypothesis 1B indicates that employee share ownership positively relates to the quality of employee-related disclosures in company annual reports. This result supports the notion that companies are more likely to provide quality information about various employee categories (see Appendix 4), thus empowering employee stakeholders with more and better information about their workplace.

The power of the employees is positively associated with the quantity and quality of employee-related disclosure. This indicates that management considers the demands of their employees when deciding whether to disclose information about them, how much to disclose, and what type of information to disclose.

Trade union membership was expected to play a positive role in empowering employee stakeholders. Instead the results of H1A, the quantity of voluntary employee-related disclosure related to employee power and H1B, the quality of that information are significantly but negatively related to trade union membership. An explanation for these unexpected results is that the Australian trade union movement has effectively campaigned against further deregulation of the labour market. A prominent example in the 2007 Federal election was that the Australian Council of Trade Unions actively campaigned against "*Work Choices Act"* introduced in 2005 by the relevant Government to further deregulate the labour market. Earlier legislation in 1996 was the "*Workplace Relations Act*" that weakened unions in favour of employers (Cooper and Ellam, 2008; Buchanan and Considine, 2007). The Australian union movement first supported easing of labour regulations during 1980's but subsequent loss of working conditions, reduced real wages and job insecurity exacerbated by privatisation and outsourcing made labour deregulation unattractive to many ordinary workers (Buchanan and Watson, 2001; Cooper and Ellam, 2008). Hence the union movement actively and successfully campaigned for the repeal of the *"Work Choices Act"* in favour of the *"Fair Work Act"* in 2007 that provided more worker protections and re-introduced the Industrial Relations Commission as a forum for unions to stand up to corporate employers. Managers pointed out the impact of the regulatory changes in response to a survey about the *"Fair Work Act"* stating that,

> "Managers are spending a considerable amount of time reviewing employment contracts in light of award modernisation to ensure they meet the regulations. Some employers have had to introduce awards to employees who were previously award-free while others have had to spend much time transferring employees from one contract to another. The introduction of flexible work practices has resulted in many organisations dealing with increased requests as well as the need to introduce policies and procedures to cover these areas. Compliance with the new unfair dismissal legislation was also noted as having significant impact." (Abbot, Hearn Mackinnon, Morris and Saville, 2010 p. 39).

This evidence indicates that managers respond to increased regulation in the *"Fair Work Act"* as a result of union activism. The results of hypotheses 1a and 1b in relation to trade union membership suggest that companies are directly reporting to unions and therefore have less need to manage this stakeholder power by disclosing employee-related information in annual reports.

The corporate mission statement acknowledging employees is positively related to the quality of employee-related disclosures (hypothesis 2B) but not significant regarding the quantity of company employee-related disclosures (hypothesis 2A). This result shows that companies providing more and better employee-related information use mission statements recognising employees as a strategic posture (Ullmann, 1985). In 2004, only 52 per cent of the publicly available mission statements mentioned the company's employees.

Additionally, the corporate governance index score, constructed from the individual corporate governance variables, shows that the average score in the sample is five out of the nine corporate governance characteristics. This result suggests the corporate governance structure is important regarding employee-related disclosures.

Hypotheses 2A and 2B confirm the strategic role of corporate governance that supports the notion of corporate strategic posture (Ullmann, 1985). The predicted positive association between elements of corporate governance best practice systems and the quantity and quality of company employee-related disclosures indicates boards are aware of the importance of good employee relations for productivity and profits. Corporate governance elements tested in this study are based on the ASX Principles of Good Corporate Governance and Best Practice Recommendations (2003). These elements comprise the number of directors on the board, board independence, the existence of dual CEO and chair position, the number of board meetings, the presence of audit, nomination, remuneration and social committees, and the audit (or not) by a Big 4 auditor. Hypothesis 2A was partially confirmed with the nominations committee insignificant. Hypothesis 2B indicates higher significance for all of the elements of strong corporate governance systems, including the nomination committee. This result finds that corporate governance best practice systems enhance more and better employee-related information supporting the notion of strategic posture (Ullmann, 1985; Wright, 1996). Interestingly, the social responsibility committee is more highly significant ($p<.01$) in relation to the quality of employee-related disclosures than the quantity of employee-related disclosures ($p<.05$) indicating that this committee is key to more and better employee-related information.

The relations between economic performance and the quantity and quality of voluntary employee-related information disclosed is partially supported and mixed as shown by hypotheses 3A and 3B results. Return on assets is marginally positive ($p<.10$) in relation to the quantity of company employee-related reporting and not significant regarding quality of employee-related information. Tobin's Q on the other hand is significantly related to the quantity of employee-related disclosure but insignificant regarding the quality of employee reporting. These results possibly indicate that investors (the market) are interested in employee-related disclosures but are not concerned about the quality of these disclosures.

Many researchers (Kent and Chan, 2009; McGuire et al., 1988; Mills and Gardner, 1984; Roberts, 1992; Wilmshurst and Frost, 2000) have tested for a relationship between financial performance and social performance to determine whether this relationship is of a positive or negative nature. The current study found no significant relations between past financial performance and the dependent variables. However, current economic performance proxied by either ROA_i or $TOBINSQ_i$ is significant in every model. These findings are parallel to the results provided by previous studies on corporate social disclosures (for example, Al-Tuwaijri et al., 2004; Ullmann, 1985).

6.3 LIMITATIONS

The limitations of this thesis should be considered when interpreting the findings. All methodological approaches suffer from some kind of limitation that places restrictions on what method is most suitable. The objective is to understand what these weaknesses are and how they can be addressed within the research process. To improve the quality of the statistical analysis, an analysis of the psychometric issues has been addressed to improve reliability, validity, and reduce bias and error.

The results are subject to threats to external validity. First, this analysis only examines voluntary employee-related disclosures over a single period, for the year ending 30th June 2004. Other studies (for example, Guthrie and Parker, 1989) have shown that corporate social responsibility disclosure practices fluctuate over time, therefore, the conclusions reached by this study may have limited application across time or in other individual years.

Second, generalisation in accounting research is something that needs to be considered carefully, as the social context of accounting changes over time and location. This study was conducted using Australian publicly listed companies, therefore, it is unclear whether the explanations provided in this thesis still hold true in other cultures and societies, or whether the results would be similar for companies in different countries trading on different markets. Thus, future research investigating voluntary employee disclosures could focus on cultures and societies different from Australia.

Third, there is increased potential for bias because of reliance on the human instrument that defines the problem, does the sampling, designs the instruments, collects the data, analyses it, interprets it, and then writes it up. Therefore, three independent researchers gathered information for the four dependent variables (for example, presence, quantity, nature and diversity) from each of the company's 2004 annual reports. The researchers collected the variables based on a criterion that was developed and discussed before the data collection process commenced and used their judgement to decide whether the information provided in the annual report was considered to be related to the company's employees or not, whether it was positive or negative in nature and the number of sentences were physically counted for each company. Any discrepancies were consulted upon and corrected.

Other measures assigned to the study ($EMPSHR_{i,}$ $EMPMIS_{i,}$ $ADVPUBL_i$ and individual corporate governance variables) are also subject to error. The presence of an employee share ownership scheme and the individual corporate governance characteristics are determined from the information provided in the annual report. The acknowledgement of employees in companies' mission statements is sought from the annual reports or the company's website. The adverse publicity articles are extracted from the Factiva database. The independent researchers physically counted the number of adverse publicity articles relating to the employees for the year prior to the 2004 balance date, which is also subject to human error. This creates concern for experimenter bias, which occurs when the individuals who are conducting an experiment inadvertently affect the outcome by non-consciously behaving differently to members of control and experimental groups. It is possible to eliminate the likelihood of experimenter bias through the use of double blind study designs. This is where two or more people conduct the data collection separately and then examine if differences are present in their results for a more accurate variable. The time consuming nature of undertaking qualitative research and the associated costs involved are often greater than that which its quantitative counterpart incurs. Mainly because the latter often employs archival data and quantitative data is relatively easier to collect, analyse, and interpret. In addition, the nature of qualitative data increases the difficulty in achieving validity and reliability.

There are several limitations in the use of content analysis (Gray et al., 1995; Milne and Adler, 1999; Unerman, 2000). First, is the notion that content analysis captures the quantity of disclosure (in terms of frequency and volume of disclosure) rather than the quality characteristics. The subject matter being investigated (the narratives of employee-related disclosure) must be captured by the coding instruments (Deegan and Rankin, 1996; Wilmshurst and Frost, 2000). Milne and Adler (1999) emphasise that in order for valid inferences to be drawn from content analysis, reliability of the data and the instrument must be achieved. Second, there is an element of subjectivity involved in determining what constitutes a particular type of disclosure (Guthrie and Abeysekera, 2006; Zegal and Ahmed, 1990).

While empirical research has addressed the quantity of voluntary disclosures, it has typically measured the quantity of disclosure as the number of words or sentences of information in the annual report. The number of sentences of description in the annual report does not measure the quality of disclosures. The number of separate employee categories based on the Global Reporting Index, along with the disclosures of good or bad news are used to address this issue by examining whether the stakeholder variables were attributable to the level of disclosure, and further the quality of the disclosure. Investigating the type of information disclosed in a company's annual report helps to determine the quality of the disclosure based on prior knowledge of publicity in the preceding years. However, there are other factors that might explain both the quantity and quality of disclosure relating to the employees in annual reports that have not been captured in the models.

The sample was extracted from the population of publicly listed companies on the Australian Securities Exchange in 2004. The study was confined to companies with a 30th June 2004 balance date, which reduced the sample size from 1527[18] to 1046 companies. The sample size was further reduced to 970 after all of the companies with zero employees were excluded.

The applied study only focuses on employee-related disclosures in annual reports. However, these disclosures may exist via other channels (Kent and Ung, 2003). In most cases, annual report disclosures constitute only one method of the company's communication and the use of one channel may well affect the use and effectiveness of other channels. Additionally, different channels may not be equally efficient or effective in accomplishing specific communication goals. Employee-related information may exist via other channels of communication (Kent and Ung, 2003), such as on the company's websites, intranets or special purpose employee reports. Prior research revealed that companies with negative news tend to disclose that information earlier though their interim reports (Skinner, 1994). Therefore, annual reports could omit information that is redundant, having already been disclosed through more timely information channels such as half yearly report and other continuous disclosure methods.

Another potential limitation of this study is that it ignores possible lag effects. It has been suggested that management adjusts its employee disclosure policies on the basis of the publicity received by its company in the year leading up to the annual report studied. Further, it has also been assumed that there is a time lag between the adverse publicity received and changes in community concern, however, the exact lag is unknown and could be significantly different for each company. As the adverse publicity (*ADVPUBL*) variable was calculated for the year 30th June 2003- 30th June 2004, it is unknown whether the time lag effect relevant to the company is captured, and the adequate disclosure of employee-related information is present in the 2004

[18] Number of companies listed on the ASX as at 30th June 2004 (ASX, 2010).

annual report (Brown and Deegan, 1998). Some companies may elect to disclose this information via other channels before employing their annual report. Future research could help resolve this issue by conducting a similar study using comparative years or even over a number of years.

6.4 OPPORTUNITIES FOR FUTURE RESEARCH

Stakeholder theory offers researchers and society a way to critically evaluate social corporate responsibility disclosures. However, the understanding and analysis of the theory must become more advanced, drawing on developments from both within the accounting literature and other disciplines.

The limited knowledge with regard to employee-related disclosures suggests a number of areas of interest. This study has focused on the motivations of management to supply the information for the annual reports. The demand side of this issue, stakeholders' need for information, is also an area for further study. The type of information demanded by stakeholders, and in which situations, can be explored. In knowing this, the supply and demand sides could be jointly investigated to determine if both needs are being met.

There is a considerable amount of literature about how the media can affect society's views but little focus on how annual report disclosures, especially voluntary social disclosures, impact the concerns of the community. This is an opportunity for future research.

Whilst this study focuses on the Australian context, other countries with varying legal, political and cultural settings could disclose employee-related information in quite a different manner. It would be interesting to conduct a similar study in the context of another country, or even conduct a comparative country study using the stakeholder framework.

Future research could look to examine employee-related disclosures over a longer period of time. Other studies (Hogner, 1982; Guthrie and Parker, 1989) have shown that corporate social responsibility disclosure practices fluctuate over time, therefore the conclusions may differ in other time periods or across time periods.

Finally, research could also focus on particular categories of employee-related disclosure, such as occupational health and safety rather than employee-related disclosures in general.

6.5 CONCLUSION

In conclusion, this study provides evidence about voluntary employee-related disclosures for a sample of 2004 Australian annual company reports. Ullmann's (1985) strategic framework was applied for social reporting comprising three dimensions, stakeholder power, strategic posture and economic performance. Specifically, the companies' provision and quality of voluntary employee-related disclosures was examined in relation to employee stakeholder power represented by employee share ownership and trade union membership. Evidence in this study indicates that employee share ownership does empower employee stakeholders in relation to the quantity and quality of corporate employee-related disclosures. In contrast, companies appear to use corporate employee-related disclosures to neutralise union power in their workplace as a regulatory risk management strategy. The results also show that companies employ strong corporate governance best practice systems to strategically manage employees through provision and quality voluntary employee reporting. Corporate mission statements recognising employees are also evidence of strategic posture, but only for the quality of employee-related disclosures. Economic performance represented in this study by return on assets and Tobin's Q shows mixed results with ROA marginally associated with the quality of employee reporting, while Tobin's Q is related to the quantity of information companies disclose relating to their employees.

This research has progressed the understanding of what factors determine the quantity and quality of employee-related disclosures in Australian company's annual reports. The main findings of the study were that companies that have greater employee power, a more active strategic posture and higher current economic performance disclose more employee-related information and of a higher quality than other companies without these attributes. This substantiates that stakeholder theory, as applied in this research, is a theoretical framework that can be used to explain why companies voluntarily disclose employee-related information in their annual reports.

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APPENDIX 1

COMPARATIVE STUDIES OF ULLMANN'S FRAMEWORK

ROBERTS (1992)			CHAN (1997); KENT and CHAN (2009)			ELIJIDO-TEN (2005)		
Sample	**Measurement**	**Results**	**Sample**	**Measurement**	**Results**	**Sample**	**Measurement**	**Results**
US companies investigated in 1984-86 by the CEP			102 largest Australian listed firms (BRW, 1995)			Top 100 Australian companies ranked by ACF in 2002 according to environmental performance		
Dependent Variables			**Dependent Variables**			**Dependent Variables**		
Social Disclosure	CEP ratings		Quality	Questionnaire rated		ACFR	ACF ranking on company environmental performance	
			Quantity	Number of sentences				
Independent Variables (expected sign)			**Independent Variables (expected sign)**			**Independent Variables (expected sign)**		
Stakeholder Power			***Stakeholder Power***			***Stakeholder Power***		
Stockholders (-)	% ownership	not sig.(-)	Shareholder (+/-)	% ownership	sig. (+)	Shareholder (-)	% ownership	sig. (-)
Creditor (+)	Average D/E > 1981-84	sig. (+) 10%	Creditor (+)	Average D/E	not sig.	Creditor (+)	Average D/E	not sig.
Government or Regulators (+)	Political contributions	sig. (+) 5%	Regulator (+)	1 = prosecuted; 0 = not	not sig.	Government Power (-)	1 = high industry sensitivity; 0 = low sensitivity	sig. (-)
			Lobby Group (+)	1 = high sensitivity; 0 = low sensitivity	sig. (+)			
Strategic Posture			***Strategic Posture***			***Strategic Posture***		
Public Affairs (+)	Average size of public affairs staff 1983-84	sig. (+) 10%	Mission Statement (+)	1 = acknowledge 0 = no acknowledge	sig. (+)	Environmental Concern (+)	1 = disclosure of environ activities on A/R &/or putting environ concern in mission s'ment; 0 = none	sig. (+)
Philanthropic foundation (+)	1 = PF; 0 = nil	sig (+) 1%	Environmental Committee	1 = committee; 0 = no committee	sig. (+)			
Economic Performance			***Economic Performance***			***Economic Performance***		
Manager ROE (+)	Average change in ROE 1981-84	sig (+) 5%	ROE 1994 (+)	1994 Return on Assets	not sig.	AROA (+)	Average Return on Assets	not sig.
BETA (-)	1984 beta market model with 60 month period	sig. (-) 10%	ROE 1995 (+)	1995 Return on Assets	not sig.	Past ROA (+)	2001 ROA	not sig.
			Average ROE (+)	Average ROE	not sig.	Current ROA (+)	2002 ROA	not sig.
Control Variables			***Control Variables***			***Control Variables***		
AGE (+)	Age in 1984	sig. (+) 1%	RISK (+)	Age since inception	sig. (+)	AGE	Number of years since listed until 2002	not sig.
INDUSTRY (+)	1 = auto, airline, oil; 0 = others	sig (+). 5%	SIZE (+)	Log market capitalisation	sig. (+)	LSIZE (+)	Log market capitalisation	not sig.
SIZE (+/-)	Average revenue 1981-84	not sig. (-)						

APPENDIX 2

GLOBAL REPORTING INITIATIVE (2002)

Labor Practices and Decent Work Performance Indicators			Employee Categories
Employment	**LA1**	Total workforce by employment type, employment contract, and region.	• Employee profiles
	LA2	Total number and rate of employee turnover by age group, gender, and region.	• Employee profiles
	LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	• Employee assistance or benefits
Labour/ Management Relations	**LA4**	Percentage of employees covered by collective bargaining agreements.	• Industrial relations
	LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	• Industrial relations
Occupational Health and Safety	**LA6**	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	• Health and safety
	LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities by region.	• Health and safety
	LA8	Education, training, 191ounselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	• Health and safety • Employee training and development
	LA9	Health and safety topics covered in formal agreements with trade unions.	• Health and safety • Industrial relations
Training and Education	**LA10**	Average hours of training per year per employee by employee category.	• Employee training and development
	LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	• Employee training and development
	LA12	Percentage of employees receiving regular performance and career development reviews.	• Employee training and development • Employee remuneration • Employee profiles
Diversity and Equal Opportunity	**LA13**	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	• Employment of minorities or women
	LA14	Ratio of basic salary of men to women by employee category.	• Employment of minorities or women

APPENDIX 3

CATEGORIES OF EMPLOYEE-RELATED DISCLOSURE USED BY OTHER RESEARCHERS

Authors	Types of Employee-related Disclosure
1978 Ernst and Ernst	1. Human resources: 2. employee health and safety 3. employee training; 4. other human resource disclosures;
Clarkson (1988)	1. communications with employees; 2. training and development; 3. career-planning; 4. retirement and termination counselling; 5. lay- offs, redundancies and plant closings; 6. stress and mental health; 7. absenteeism and turnover; 8. health and safety; 9. employment equity and discrimination; 10. women in management; 11. performance appraisal; 12. day care
Gray et al. (1995a)	**1.** consultation with employees; 2. employee share ownership; 3. employment of disabled; 4. employment data; 5. pension commitments; 6. value added statements; 7. health and safety; 8. employee other.
Deegan et al. (2002)	1. employee health and safety; 2. employment of minorities; 3. employee training; 4. employee remuneration; 5. employee morale; 6. industrial relations; 7. other.
Menassa (2010)	1. employee morale; 2. training and development; 3. employee profile; 4. employee share purchase schemes; 5. employee health and safety; 6. employee relations; 7. employee remuneration; 8. employee assistance benefit; 9. equal opportunity practices; 10. job creation.

APPENDIX 4

CATEGORIES OF EMPLOYEE-RELATED DISCLOSURES

Categories		Global Reporting Index
1	Employee profiles	LA1, LA2, LA12
2	Employee assistance or benefits	LA3
3	Industrial relations	LA4, LA5, LA9
4	Health and safety	LA6, LA7, LA8, LA9
5	Employee training and development	LA8, LA10, LA11, LA12
6	Employee remuneration	LA12
7	Employment of minorities or women	LA13, LA14
8	Employee morale	n/a
9	Other	n/a

APPENDIX 5

EXAMPLES OF EMPLOYEE-RELATED DISCLOSURES

	Disclosure Category	Company	Examples
1	Employee profiles	Brambles	"In the past year, Brambles' employees, particularly those in CHEP, have worked under tremendous strain to effect the business transformation. Their efforts have been tireless and are a credit to all those involved. The challenges facing the other businesses have been no less arduous, and their achievements are a testament to the professionalism, diligence and integrity of the employees throughout the entire group."
		Collection House	"Staff numbers were further reduced from 753 in 2002/03 to 692 at the end of 2003/04. With staff numbers now stabilised, the focus has moved to improving efficiencies, streamlining operating procedures and developing programs for managing human resources issues."
		Gribbles	"Professor Ian Findlay is leading Gribbles' charge to be at the forefront of developing and transforming leading edge molecular science research into improved medical testing. Ian pioneered the technique of DNA fingerprinting in single cells in 1994."
		Suncorp	"Late in 2003 we restructured the Company along business lines to make it less complicated, and so our people knew how they fitted into the organisation, and had clear lines of responsibility and accountability. We then looked at all the jobs in the Company and made sure we had the right people in the right jobs, with the appropriate job targets and proper financial incentives in place. We called that process the leadership framework, and it has had a marked effect in lifting morale and improving performance."
2	Employee assistance or benefits	Boral	"More than one-quarter of Boral's Australian and US workforce are over the age of 50. We recognise that an aging workforce brings with it the need for greater focus on specific workplace health and safety issues, superannuation and retirement planning education, and the provision of workplace flexibilities. In addition, there is a greater focus on formal competency based "on-the-job" training to assist older workers to develop, cope with new technologies, gain recognition for competencies and share their knowledge within the workplace."
		Peter Lehmann Wines	"We recognise the importance of balancing work responsibilities with family and community interests. Vintage is a particularly busy time when employees work long hours and we strive to provide a family friendly work environment. Employees who have gone on maternity leave have been offered part time work if they choose not to return to work full time when the 12 month period following the birth of the child expires."
		Qantas	"Qantas also recognises that many staff balance a busy range of work and personal commitments. Qantas has committed $50 million over the next three years to initiatives that will assist staff to balance their work and family life. From August 2004, Qantas employees in Australia received: increased paid maternity leave from six to 10 weeks, with equivalent improvements for those staff groups that have special existing arrangements;10 weeks' paid adoption leave consistent with maternity leave; one week paid paternity leave; and up to 10 days' carer's leave per annum; A "keep in touch" program for staff on maternity and adoption leave will also be introduced". Qantas is also building two new child care centres, one in Melbourne and one in Brisbane, and is evaluating child care needs for staff in other Australian cities where the Company has a significant presence. These will complement the child care centre opened at Qantas' Sydney headquarters in May 2003.
		Warrnambool Cheese and Butter Factory	"The Company remains committed to the professional development of its employees. During the year, we supported a number of staff in their pursuit of business-relevant tertiary studies, conducted a supervisor development program and put a number of production staff through specific dairy

			processing programs. We also continued our internal leadership and workplace development program."
3	Industrial relations	Boral	"Boral's industrial relations strategy is based on line management ownership, with a primary focus on the business unit needs and issues and an ongoing emphasis on constructive employer-employee relationships through participation and consultation. This approach is consistent with the diversified nature of our businesses which range from large manufacturing facilities down to one or two person operations across our 552 sites in Australia."
		Coates Hire	"Coates continued to maintain good relations with industry and employee representatives across the Group. There was no major industrial action during the period, and no material impact on any operations was recorded in 2004 as a result of any protracted or significant industrial relations or union action."
		Fletcher Building	"The constructive relationships we enjoy with labour unions are also a positive contributor to the employment climate within the company. That some 3,000 employees and their families attend the annual company sports day in Auckland, that 1,000 employees participate in the Round The Bays run in Fletcher Building T-shirts, and that the company gymnasium and child care facility are so valued are all signs of a healthy employer-employee relationship. "
		Virgin Blue	"Operational economies are facilitated by our competitive and flexible workplace agreements. These agreements provide us with the latitude to cross-train and multi-task our staff."
			"Our ability to compete is reinforced by our workplace agreements, which have revolutionised workplace relations for airlines in Australia. The interests of over 85 percent of Virgin Blue staff are represented by just three unions, a fraction of the number covering the employees of traditional airlines."
4	Health and safety	BHP Billiton	"Despite this progress, we have failed to meet our most important target – zero fatalities. Tragically 17 employees or contractors lost their lives during the year, an outcome that is unacceptable by any measure. Management have refocused and redoubled their efforts to address this issue in line with the Group's target of Zero Harm. We know this is achievable because we have many operations around the world where excellence in safety has been and is being consistently achieved."
		Coles Myer	"Safety RIGHT NOW program awareness rolled out to all Coles Myer team members"
		IAG	"We developed the 'besafe' programme to encourage our staff to participate in keeping our work places healthy, safe and clean. To assist us in improving our safety performance we train our people in: • Prevention – creating safe and secure working environments and promoting safe behaviour to avoid harm; • Treatment – prompt reporting and early intervention to minimise harm; and • Rehabilitation – focusing on early recovery and return to work. Almost 500 employees have undertaken a St John Ambulance First Aid Training Course since December 2003, adding to the growing number of staff trained throughout the organisation."
		Mayne Group	"At Mayne, safety in the workplace is everyone's responsibility. Providing our people with the training and resources to sustain health and safety practices underpins this philosophy. In the past financial year, a revised and extensive library of OH&S information and procedures was placed on the Company intranet to give employees better access. All employees with direct responsibility for OH&S participated in a coordination seminar and management responsibility training was conducted with executives, senior managers and line managers."
5	Employee training and development	The Environmental Group (EGL)	"The aim of our Staff Training Program is to provide 20 to 25 hours of training hours per employee per year in a range of skill based and personal development areas."
		Southern Cross Broadcasting	"A training record for all staff has been developed to ensure all staff obtain appropriate skills. Further innovative training and development programmes are being implemented, including an on-line training facility."
		Transfield	"Over the course of the year, 60 employees graduated from our leadership and management training programs. In addition, a further 24 new graduates were accepted into our internal graduate program and we launched a Fast-track Diploma of Management. In addition, our employee development initiatives were recognised with two external awards."

		Woolworths	"All of our people, whether in stores or support functions, know our business extremely well. Our employees' experience and knowledge of how our business operates is one of our most valuable assets and contributes to our ongoing success. Woolworths has a strong culture of developing and promoting people from within the business and encouraging outstanding performance from our existing employees at all levels. Training and development remains a key focus for Woolworths with the formation of the Woolworths Academy and a partnership with the Macquarie Graduate School of Management (MGSM)."
6	Employee remuneration	PBL	"Crown has recently signed a new four-year agreement covering the majority of its operational employees. The agreement reflects improved working conditions and competitive wage rates within a framework that will allow the complex to continue profitable growth. It also provides for enhanced career opportunities for employees, particularly in the table games area."
		One Steel	"The company's remuneration policy for senior executives aims to: • attract, develop and retain executives with the capabilities required to lead the company in the achievement of business objectives • have a significant proportion of executives' pay at risk to ensure a focus on delivering annual financial, safety and business objectives • reward executives for maintaining sustained returns to shareholders."
		Telstra	"As part of the overall remuneration strategy and to encourage a longer term perspective, directors are required to receive a minimum of 20% of their remuneration by way of restricted Telstra shares through the DirectShare Plan. The shares are purchased on market and allocated to the participating director at market price. The shares are held in trust for a period of 5 years unless the participating director ceases earlier with the Telstra Group. In accordance with our policy, directors may state a preference to increase their participation in the DirectShare Plan. Where this occurs, we may provide a greater percentage of directors' fees in Telstra shares."
		Zinifex	"We believe that people do indeed make a difference. To this end, we are progressively rolling out performance-based pay which will ultimately see each employee rewarded for achieving individual targets combined with the Company's overall financial performance."
7	Employment of minorities or women	Australian Agricultural Co.	"As a large land holder and one of the biggest employers in rural and regional Australia, AACo recognises its special responsibility to the community and to the Indigenous population."
		Brambles	We are an equal opportunity employer. We are committed to developing a diverse workforce and providing a work environment in which everyone is treated fairly and with respect, irrespective of sex, race, sexual orientation, age, disability, religion or ethnic origin. Employment and advancement at Brambles are based on merit. Brambles employs disabled people and we work to develop and maintain active careers for them. If a Brambles' employee becomes disabled while in our employment and, as a result, is unable to perform their duties, we make every effort to find them suitable alternative employment and provide retraining. Our Human Resources practices, including recruitment, selection, remuneration and training, are undertaken on a non-discriminatory basis, in line with our Code of Conduct."
		Collection House	"Collection House recruitment strategies were revised during the year to attract more female applicants. More than 55% of the Company workforce is now female and there is an increasing proportion of women in senior management positions in our Australasian operations. There is also a greater focus on work / life balance including more flexible working hours."
		Kingsgate Consolidated	"The company has a policy to improve the quality of life for women workers who comprise approximately 16% of the workforce. Although low by general industry standards, the number of women employed is relatively high for the mining industry. In 2004 the company was awarded a trophy and certificate by the Ministry of Labour for its "efforts on understanding the importance in improving the quality of life for women workers"."
8	Employee morale	Flight Centre	"Flight Centre actively promotes a set of values designed to assist all employees in their dealings with each other, competitors, customers and the community. The values endorsed include: honesty, integrity, fairness and respect. These values are incorporated into the company core philosophies and considered the equivalent of a Code of Conduct as it sets out the standards expected of all employees."

		Singapore Telecom.	"The Group also recognises that one of its most important assets is its human capital. Whether in Singapore or Australia, employees work in a culture which encourages and rewards personal excellence and which provides training and development opportunities for individuals to achieve their best."
		Strathfield Group	"Life as a Strathfield Business Manager is exciting, inspiring and challenging. Leading a team of people to achieve financial and non-financial goals, and balancing this with excellence in customer service provides a rewarding challenge for our team. Our Business Managers are responsible for all aspects of managing a store from stock, to service to merchandise presentation. From Strathfield's early days in Albert Rd. Strathfield we recognised the importance of people, their happiness at work and the impact this can have on our customers. Customer service is one of the platforms we have built the business on and our results are testimony to this fact."
		Wesfarmers	"… providing a fulfilling and safe working environment for employees, rewarding good performance and providing opportunities for advancement;"
9	Other	Coffey International	"Coffey International Limited has some of the world's most experienced and talented people in the engineering, scientific and international development fields. Professor Harry Poulos is just one example. He was voted 2003 Civil Engineer of the Year and the 2004 inaugural winner of the Geotechnical Practitioner of the Year."
		CSL	"CSL's biennial Global Employee Opinion Survey conducted late in 2003 revealed strengths in customer focus, organisational commitment and the effectiveness of immediate supervisors, as well as an overall 75% level in job satisfaction."
		Kingsgate Consolidated	"For the second year running the company was awarded the Prime Minister's "Best Practice Award for Employee Welfare" and in 2004 the Governor of Phichit Province and several of his officers visited the site to see at first hand some of the initiatives the mine has undertaken to win this award. During the visit, the officials were introduced to several of the site's employee relations policies including work practices, employee benefits, dispute and harassment, promotion of women and recent initiatives in the health and safety area including drug and alcohol use, health hygiene and sexual transmitted diseases. The visitors met key employees and conversed with a wide selection of the work force exchanging ideas for further development both at the mine site and in local communities."
		Wesfarmers	"I would like to acknowledge the important role played by all employees in the achievement of the 2003/04 result. Their skill, loyalty and commitment represents one of the major strengths of the Wesfarmers group. On behalf of the Board, I thank them for their dedication and excellent performance."

APPENDIX 6

EXAMPLES OF MISSION STATEMENTS MENTIONING EMPLOYEES

Company	Mission Statement
BHP Billiton	At BHP Billiton our objective is to be the company of choice - creating sustainable value for our shareholders, ***employees***, contractors, suppliers, customers, business partners and host communities....We aspire to Zero Harm to people, our host communities and the environment and strive to achieve leading industry practice. Sound principles to govern safety, business conduct, social, environmental and economic activities are integral to the way we do business
Billabong	Billabong International's values remain consistent with its foundation objectives, which include a commitment to brand protection and enhancement, the manufacture of design-relevant and functional products, marketing in the core boardsports channels, the professional development of ***staff*** and ongoing attention to customer service and relationships.
Bluescope Steel	Our customers are our partners. Our ***people*** are our strength. Our shareholders are our foundations. Our communities are our homes.
Coles Myer	Coles Myer will create benefits for its stakeholders—its customers, ***staff***, suppliers and shareholders—by being the best retailer in every market in which the company operates’.
Emperor Mines Limited	By utilising our ***employees'*** expertise, innovation and teamwork, we seek to generate maximum value for our shareholders through the discovery of new deposits, increased production, operational expertise and balanced exposure to gold price movement.
National Foods	We will be the company of choice for our ***employees***, our customers and our suppliers. We will deliver above average returns to our shareholders. We will meet or exceed our consumers' needs by delivering innovative new branded products of superior quality. We will acquire other businesses where this will deliver improved shareholder value. We will strive to maintain our position as the most efficient company in our industry. We will achieve our vision while operating in strict conformity with our company values.
Pacific Brands	Unity - work as one ***winning team***, collaborate. Commitment - do it wholeheartedly or not at all. Innovation - to lead the way, explore, dare to try. Speed - be there first, do it, don't wait. Accountability - do what you say, take responsibility.
Telstra	We build technology and content solutions that are simple, easy to use and valued by our customers. We strive to ***serve*** and ***know our*** customers better than anyone else.

APPENDIX 7

TRADE UNION MEMBERSHIP BY INDUSTRY

Industry	**% Trade Union Members**
Agriculture, forestry and fishing	4.7
Property and business services	6.7
Wholesale trade	7.8
Accommodation and food services	8.1
Retail trade	16.6
Mining	17.3
Finance and insurance services	17.4
Cultural and recreational services	17.6
Construction	23.4
Manufacturing	26.0
Communication services	28.6
Health and community services	29.0
Personal and other services	29.6
Transport, postal and warehousing	36.1
Government administration and defence	37.5
Education	44.2
Electricity, gas, water and waste services	52.3
Average	22.7

APPENDIX 8

EMPLOYEE SHARE OWNERSHIP SCHEME PARTICIPATION BY INDUSTRY

Industry	% employee participation in share ownership scheme
Education	0.1
Accommodation and food services	0.7
Other services	1.1
Health care and social assistance	1.6
Agriculture, forestry and fishing	4.1
Construction	4.6
Electricity, gas, water and waste services	4.7
Arts and recreation services	4.9
Property and business services	6.3
Retail trade	6.4
Wholesale trade	7.4
Manufacturing	7.9
Transport, postal and warehousing	9.2
Communication services	16
Mining	16.4
Finance and insurance services	32.3
Average	5.9